S. Hrg. 99-1052

REVIEW OF THE IMPLEMENTATION OF THE FOOD SECURITY ACT OF 1985

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

AUGUST 28, 1986
LINCOLN, NE

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

U.S. GOVERNMENT PRINTING OFFICE
67-954 O WASHINGTON : 1987

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

5161-12.

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

JESSE HELMS, North Carolina, *Chairman*

BOB DOLE, Kansas
RICHARD G. LUGAR, Indiana
THAD COCHRAN, Mississippi
RUDY BOSCHWITZ, Minnesota
PAULA HAWKINS, Florida
MARK ANDREWS, North Dakota
PETE WILSON, California
MITCH McCONNELL, Kentucky

EDWARD ZORINSKY, Nebraska
PATRICK J. LEAHY, Vermont
JOHN MELCHER, Montana
DAVID H. PRYOR, Arkansas
DAVID L. BOREN, Oklahoma
ALAN J. DIXON, Illinois
HOWELL HEFLIN, Alabama
TOM HARKIN, Iowa

KEITH H. WEATHERLY, *Chief of Staff*
TERRANCE J. WEAR, *General Counsel*
CARL P. ROSE, *General Counsel and Staff Director for the Minority*
WARREN B. OXFORD, *Printer/Chief Clerk*

CONTENTS

Page
Zorinsky, Hon. Edward, a U.S. Senator from Nebraska, opening statement 1
Exon, Hon. J. James, a U.S. Senator from Nebraska 1
Bereuter, Hon. Douglas, a Representative in Congress from the First District of Nebraska 2

CHRONOLOGICAL LIST OF WITNESSES

Arnold, Dr. Roy G., vice chancellor, University of Nebraska-Lincoln 4
Harris, Hon. Bill, a Nebraska State Senator 9
Hutchens, Donald D., director, Nebraska Department of Agriculture 13
Schmit, Hon. Loran, a Nebraska State Senator 18
Hall, Larry, president, Nebraska Farmers Union 25
Neidig, Bryce, president, Nebraska Farm Bureau Federation 32
Breckenridge, Robert, State president, American Agriculture Movement 37
Jones, Corky, national president, American Agriculture Movement 38
Hughes, Dan, vice president, Nebraska Wheat Growers Association 42
Stoddard, Ron, director, Nebraska-Wyoming Wheat Growers Association 45
Farr, Ed, member, Nebraska Wheat Board 49
Swanson, Rod, president, Nebraska Corn Growers Association 53
Holthus, C.G. Kelly, president, Nebraska Bankers Association 55
Dinsdale, Roy 57
Borcher, Marge, president, Nebraska Chapter, Women Involved in Farm Economics 62
Hall, Norma, president, Agriculture Council of Nebraska 64
Wrage, Tim L., president, Farm Crisis Committee 68
Dittrich, John M., State coordinator, Farm Crisis Committee 69
Halloran, Steve, vice president, Nebraska Chapter, National Farmers Organization 73
Fisher, Jack, president, Nebraska Livestock Feeders Association 75
Lackaff, Richard, president, Nebraska Stock Growers Association 76
Sullivan, John, member, board of directors, Mid-America Dairymen, Inc 82
Magnusson, Verner, president, Nebraska Association of Farmer-Elected Committeemen 87
Underwood, Paul, president, Nebraska Grain Sorghum Producers Association 89
Vortman, Gerald, president, Nebraska Soybean Association 91
Anderson, Robert, representing Nebraska Cooperative Council 94
Sanne, Richard D., executive vice president, Nebraska Grain and Feed Dealers Association 95
Riblett, D.D. Bud, vice president and loan guarantee officer, Farmers and Merchants Bank 98
Dunn, Michael V., vice president, Farm Credit Banks of Omaha 100
O'Connor, Ralph E., chairman, Nebraska Gasohol Committee 102
Wickett, Frank, farmer, Laurel, NE 111
Hansen, John K., representing Madison County Farmers Union 113
Niewohner, Marilee, Albion, NE 118
Wilkins, Dennis R., Kennard, NE 121

APPENDIX

Exon, Hon. J. James, a U.S. Senator from Nebraska, prepared statement 129
Harris, Bill, Nebraska State Senator, material inserted by:
    The Free Market System in Agriculture: A Bad Idea Whose Time Has Run, article 134

Page

Harris, Bill, Nebraska State Senator, material inserted by—Continued
  - Americans Buy More and More Food Imports, article from the New York Times of August 24, 1986 138
  - Brazilian Oranges, article from the Omaha World-Herald, August 24, 1986 139
  - U.S. Farm Imports Are Feeding Trade Deficit, article 140
  - USDA Report: Grain Alcohol Subsidies Would Be Costly, reprint from Lincoln Star, August 23, 1986 141
  - Memo from Bill Harris to Nebraska Congressional Delegation, dated April 9, 1986 142
  - High Interest Rates at Root of Ag Crisis, article from Lincoln Star, Jan. 5, 1985 143

Neidig, Bryce, Nebraska Farm Bureau Federation, prepared statement 144
Holthus, C.G. Kelly, president, Nebraska Bankers Association, prepared statement 145
Wrage, Tim L., president, Farm Crisis Committee, Emerson, NE, prepared statement 146
Fisher, Jack, president, Nebraska Livestock Feeders Association, prepared statement 147
Sullivan, John, representing Mid-America Dairymen, Inc., prepared statement 147
Underwood, Paul, president, Nebraska Grain Sorghum Producers Association, prepared statement 149
Riblett, D.D. Bud, vice president and loan officer, Farmers and Merchants Bank, Milford, NE, material submitted by: article, Processing FmHA Agricultural Guaranteed Loans 150
Dunn, Michael V., statement on behalf of the Farm Credit Banks of Omaha 151
O'Connor, Ralph E., chairman, Nebraska Gasohol Committee, prepared statement 154
Wickett, Frank, Laurel, NE, prepared statement 156
Vickers, Hon. Tom, a Nebraska State Senator, prepared statement 158
Eret, Hon. Don, a Nebraska State Senator, prepared statement 159
Ganesbom, Kent, president, Nebraska Pork Producers Association, Inc., prepared statement 160
Anderson Mollie, director, Nebraska Job Training Program, and Tom Johnston, executive director, Nebraska Technical Community College Association, also Greater Nebraska Private Industry Council, joint prepared statement, with attachments 161
Lake, N. Rollie, president, Communicating for Agriculture, Inc., prepared statement, with attachments 164
Swedberg, Morris, Craig, NE, letter dated August 26, 1986, to Senator Zorinsky 172
Claussen, Sid, Nebraska Alfalfa Dehydrators, prepared statement 172
Schoenrock, Carl, Fairbury, NE, prepared statement 174
Reininger, Roger, Lehigh, NE, prepared statement 176
Lyons, Phillys, McCook, NE, prepared statement 177
Baker, Harold E. and Margaret L., Palisade, NE, letter dated August 26, 1986, to Senator Zorinsky 179
Kaliff, William J., R.L. Kaliff Ranch Co., York, NE, letter dated August 10, 1986, to Secretary Lyng, with attachment 179

REVIEW OF THE IMPLEMENTATION OF THE FOOD SECURITY ACT OF 1985

THURSDAY, AUGUST 28, 1986

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Lincoln, NE.

The committee met, pursuant to notice, at 9 a.m. at the University of Nebraska, East Campus Student Union, in the Great Plains room, Hon. Edward Zorinsky presiding.

Present: Senator Zorinsky.

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Senator ZORINSKY. Could we please take our seats and we will begin the hearing this morning.

We have a very long list of people to testify before the committee today, and I would appreciate your assistance in conforming to a 10-minute rule. In other words, if you have a long statement to make, please give it to us and we will put it in the record as if you had presented it in its entirety, and you can either summarize for 10 minutes the gist of what is in your statement, or you can read your statement, for up to 10 minutes or whatever portions of the statement that you would like to emphasize before us because, quite obviously, we've got around 40 witnesses that want to testify. At 10 minutes each, it is 400 minutes and that's without questions and answers, and that's over 7 hours of testimony by the time you get the questions and answers. I know that we all want to be able to have our say in this but, also, with courtesy to others that want to talk, we would appreciate a 10-minute limit on any of the initial statements, and then we will have questions and answers immediately with the individuals that are testifying after they present their testimony.

I have two of my colleagues with me today, Senator Exon and Congressman Bereuter, and they are also going to participate and will direct questions.

With that, I would like to open the hearing by asking my colleague from the U.S. Senate, Senator Exon, if he would have any opening remarks that he would care to make.

Senator Exon.

STATEMENT OF HON. J. JAMES EXON, A U.S. SENATOR FROM NEBRASKA

Senator EXON. Mr. Chairman, thank you very much.

I am delighted to see the good turnout here today. This is basically a listening session that we are having to get the input that we think is vitally necessary to have the constructive ideas that I anticipate will come out of this meeting directed towards getting Nebraska and the other farm States out of the depression that we are in today.

Obviously, when we go back with 3½ weeks of time, we're not going to have the opportunity to pass any major farm legislation. I don't think that's in the cards. But I do believe that we can collect some ideas here and take that information back to Washington, and we might be able to prevail upon the administration to use some parts, and a great deal of flexibility that they have in the present farm bill, to do some things in the short term. And then, obviously, we're going to have to have a major rerun of the highly faulted 1985 farm bill. So, basically, I think we are here today to listen to you.

In the interest of saving time, as the chairman has directed—Mr. Chairman, I have a long prepared statement that I'll enter for the record, if there's no objection.[1]

Senator Zorinsky. That is appreciated.

Senator Exon. I think everybody will be happy with that so we can get things over with and on the ball. We're here basically to listen to you.

There are some charts around the room today that I will make reference to at some opportune time. The charts, I think, are rather obvious as to what they are showing, but I'll be glad to comment on those at some other time when we can get some of the—all of the important witnesses, get them on, get them going, and at an appropriate time I'll make some reference to the charts that I have up which I think might be helpful in assessing the situation that we are in but, more importantly, to decide what is the right thing to do to get ourselves out of the present difficulty.

I thank you, Mr. Chairman.

Senator Zorinsky. Thank you, Senator Exon.

Congressman Bereuter, would you have any opening remarks you would care to give?

STATEMENT OF HON. DOUGLAS BEREUTER, A REPRESENTATIVE IN CONGRESS FROM THE FIRST DISTRICT OF NEBRASKA

Mr. Bereuter. Ed, thank you very much for your earlier invitation to participate in this hearing. I'm very pleased to accept, since it is in my congressional district. It will give Nebraskans an opportunity to see a bicameral operation; something we don't see ordinarily here because of our legislature. The legislature itself, perhaps, should be mentioned. I recall it was easy to memorialize Congress to do a variety of things and those resolutions passed almost unanimously. I think while the focus today, therefore, must be on Federal policy, it would be very helpful to understand what things the State is now doing that is not helpful or things that they might do which could contribute to improved conditions.

---

[1] See p. 125 for the prepared statement of Senator Exon.

I also will be hoping today that the testimony from such a broad variety of farm organizations and individuals could be very specific. If it is, that you might be specific in your additional comments. It is one thing to suggest that something is wrong or not working, but I think that we ought to look for today is the autospy, the details, and to be certain that the logic is there between the alleged cause and effect. I think that's particularly important in this year, when one examines the impact of the 1985 farm bill.

Finally, I would say that I understand members of news media would very much appreciate, for purposes of accuracy and completeness, copies of your formal written testimony, if you have them available, and I have been asked to mention that on behalf of the news media.

I look forward to the presentations to be made.

Ed, thank you very much.

Senator ZORINSKY. Thank you, Doug.

I likewise do have prepared openings remarks.

I am pleased to welcome you to today's U.S. Senate Agriculture Committee hearing on farm legislation.

Over a year has passed since I chaired committee hearings in Lincoln and Ogallala that provided an opportunity for Nebraskans to comment on the development of the 1985 farm bill. The testimony presented at those two hearings was extremely productive. I was able to incorporate into the 1985 farm bill many of the suggestions made by the witnesses, including provisions dealing with farm credit, conservation, and the commodity programs.

Today we have a distinguished list of witnesses, and I anticipate an equally usefull hearing. The testimony entered into today's hearing record will provide the basis for future legislative and administrative action.

Today's hearing is particularly important. Next year Congress will continue to debate farm legislation that will affect greatly the Nation's agricultural economy. It's more appropriate that the committee meet here in Nebraska, the heart of an agricultural region that is the most productive in the world.

We want to see to it that Federal farm programs work to the benefit of all producers, rather than to their detriment. In particular, I am concerned about the effect of current farm legislation on Nebraska's rural economy. These concerns will be the major subjects of our hearing today.

The agricultural depression in Nebraska is affecting the entire economy of the State. School districts are being deprived of property tax revenues, banks continue to close, and smalltown businesses from seed and fertilizer distributors to grain elevators are finding it almost impossible to make a profit.

The need to adjust current farm programs provides an opportunity to correct the problems in the agricultural economy. We need to reassess existing farm programs and analyze the alternatives.

Mandatory production controls offer a partial solution to the crisis we now face. We are simply producing more than we need.

The results of the wheat poll demonstrate the acceptability of mandatory production controls on wheat. Producers have clearly expressed themselves in opposition to the views held by many politicians and lobbyists in Washington.

Mandatory production controls on wheat, if properly administered, can eventually lead to a reduction in the percentage of idled acres from the levels specified in the current program. Of course, we must continue to develop new markets through export sales and research and development on alternate uses for farm products.

We have the tools in the 1985 farm bill to counter the heavily subsidized agricultural exports of other countries. The export bonus program was intended by Congress to expand exports of U.S. agricultural commodities and develop new markets for those commodities. Unfortunately, the administration has decided that U.S. agricultural exports must take a back seat to other interests. If American farmers are not going to have the support of their Government in competing with the treasuries of other countries, perhaps it is time for a change in domestic policy. The Nation's farmers cannot continue to be caught in a tightening vise of less price support in domestic programs and less return from export sales.

I look forward to the testimony of today's witnesses, and I thank all of you for attending this hearing.

And with that, let me call upon Dr. Roy Arnold, the vice chancellor of the Institute of Agriculture and Natural Resources for the University of Nebraska at Lincoln.

Dr. Arnold, if you would like to begin.

STATEMENT OF DR. ROY G. ARNOLD, VICE CHANCELLOR, UNIVERSITY OF NEBRASKA-LINCOLN

Dr. ARNOLD. Thank you, Senator Zorinsky.

It is my purpose in appearing before you this morning to say welcome to the three of you as the representatives of the Senate committee and the Nebraska delegation, and also to those persons and organizations who will be appearing berfore you this morning, to the University of Nebraska.

As one of the Nation's major land grant universities, the University of Nebraska-Lincoln, is continuing to serve the citizens of Nebraska through its programs in teaching, in research, and in extension, and although these three missions are the historic and the traditional missions of a land grant university, I would also wish to acknowledge that they continue to evolve and to change, and to adapt in response to the changing needs and conditions in agriculture. As a follow-on to the recommendations of the Agriculture 2001 report which was made by some 150 Nebraska citizens, the Institute of Agriculture and National Resources has increased its emphasis in areas such as agriculture financial management, information systems for agricultural management and decisionmaking, marketing and utilization of agricultural commodities, the opportunities for alternative crops and commodities in Nebraska, economic efficiency in agricultural production and also resource conservation and protection. Programs such as Managing for Tomorrow, the new Agri-Business Program; the Food Processing Center and an expanded food processing transportation and marketing integrated program; programs such as AGNET; a series of demonstration projects across the State on various alternative crops; the integrated production systems projects such as the Burlington Northern water quality project at the South Central Research and Extension

Center; conservation tillage demonstration projects across the State; a low input agricultural production demonstration project at the Agricultural Research and Development Center near Mead; the sugar beet transplant and vegetable production projects at the Panhandle Research and Extension Center are examples of these redirected efforts.

The leadership and the support of the State of Nebraska's congressional delegation in Washington in our efforts to redirect programs to respond to these changing needs and conditions in agriculture are sincerely appreciated. These efforts have also benefited from excellent cooperation of the Nebraska Department of Agriculture, the Department of Economic Development, and several other Nebraska State agencies.

It is appropriate that this hearing focus on impacts of the 1985 farm bill on Nebraska's rural economy. You will hear diverse input from Nebraska citizens, in view of the difficult and the differing economic circumstances which face agriculture and rural communities in this State. The issues are complex but it is essential that the views of the citizens of rural America be considered in your deliberations regarding future farm policy.

Once again, I wish to welcome you and all of those who will be testifying to the University of Nebraska-Lincoln.

I would be pleased to respond to questions that you might have.

Senator ZORINSKY. Thank you, Doctor.

On behalf of our congressional delegation, I would like to thank the university for allowing us to use these facilities and, also, I would like to say at this time we have some of the staff from the U.S. Senate Agriculture Committee that have come in from Washington, DC, and we have a court reporter who is transcribing this meeting so that we can make an exact record of the testimony that has been given here to take back with us to share with our colleagues not only on the Senate Agriculture Committee but also in the House of Representatives as well.

Senator Exon, do you have any questions you would like to ask?

Senator EXON. Roy, thank you for your nice welcome here. We are very proud of our Institute of Agriculture here. You have made great strides.

First, I would like to ask you a question about AGNET. I was Governor when that program was put together, basically, by people out here who did such an excellent job, basically tapping the State computer, when we weren't using it at night, to do agriculture research. That program is continuing to expand, as I understand it from the information I get. I'm wondering what has happened, if anything significantly, in the last few years by use of AGNET to make projections into the future with regard to profit and loss in agricultural operations. After all, that's what it is all about. I know that early on, we had those programs where you could plug into the AGNET system of buying cattle at such and such a price and assumed that the feed were so much, you would eventually market that animal at so much of a profit or a loss. I'm sure that that's an ongoing program.

Have we been able to use AGNET in recent years in that field any more, and especially maybe with regard to other types of food production, you know, raw grain and other raw materials?

Dr. ARNOLD. Yes; there are two broad areas where AGNET has its major application. One is as a information system whereby marketing information and other information can be assessed very quickly, and it can be current and updated information.

The second one is in various decisionmaking models where an individual may enter data regarding their own farm operations, and based upon those decisions making models and, again, using the current information in terms of other variables that will influence that outcome, they can then from that obtain a reading on whether a particular decision is a wise one for their operation or not.

At this state, AGNET has been applied primarily to that individual and the kind of decisionmaking that they are making as opposed to the board policy issues. At the same time, there are other programs, and I would mention the joint program between the University of Missouri and also Iowa State University where they are focusing on broad policy issues in making long-term projections and predictions in terms of various alternatives and their implications over the longer term. The Food and Agricultural Policy Research Institute, the headquarters being at the University of Missouri, Columbus, but in cooperation with Iowa State and, also, with a network of contracts with other land grant universities, including the University of Nebraska-Lincoln, is a point where that type of broad scale information that you are indicating is being provided, and various modeling efforts have been made by that organization. This was set up by Congress and was funded by Congress roughly 3 years ago. It is now in place and operational and I think is an outstanding resource in terms of obtaining some quantitative input in terms of the implications of various policy alternatives.

Senator EXON. Roy, just let me say that the land grant colleges under—in many instances under the leadership of this institution—have done such an outstanding job in this whole area. Sometimes I wonder if we have done too good a job with exporting our technology, our expertise, and our education to other parts of the world.

As I have referred to, there are some charts around this room that are based on information that I requested for an overall study from the Congressional Research Office in regard to what is going on with regard to competition and food production around the world. Now being Americans, we always want to lend our advancements around the world to help mankind in general. You know, it has even gotten to the point where the President of the United States is proposing that if we ever develop Star Wars, which would be a total shield, that we will give this away to the Soviet Union. We have been giving. In agriculture we have been giving away and I'm not always opposed to this. But has not the land grant college research and development been at least one of the factors of the increasing production of food around the world to the point where we almost have a glut in basic commodities around the world today? And what can we do as an institute here now that we have developed and given away a great deal of this to improve productivity around the world? How can we now turn around our institute here maybe to be of a little more help to increasing some profitability back into the sector? I'm sure you are looking at that. Can you give us any specifics at all as to what you are doing warning the farmers, No. 1, about what competition they face around the world and, No. 2 how they would meet it?

Dr. ARNOLD. I think a number of the examples that I cited very briefly in my testimony in terms of programs that emphasize financial management and financial planning, programs that are focusing on various alternatives, particularly for individuals and individual operations in agriculture that may further diversify their efforts, but also the need to increase production efficiency which has two sides to it. One is price, the other is input cost. A number of the programs and projects that I mentioned very briefly are relating to focusing on low input costs and focusing on profitability from the standpoint of the optimum return, not maximum return or maximum yield, and that has been an emphasis for some time but certainly is greatly accelerated at this point.

With regard to your comments on technology, I don't know of any arena where any new technology is kept as a secret for very long, including agriculture. And I think new technology is going to be adapted. As a matter of fact, a number of folks from the European Economic Community have commented that one of their observations in visiting this country is that we're not taking advantage of all of the efficiencies that we could in some arenas in agriculture if we are going to remain competitive. But it has to focus on the optimum not on maximum.

I think also a strong case has been made in many studies that the technology and the adoption of technology, and insofar as it has been an effort of aid from this country as opposed to where technology may be purchased or may be marketed by the private sector, but where the Federal Government has engaged in various aid programs are directed by and large at the developing nations of the world and a strong case has been made that the development of their economy by developing agriculture first has enabled them to become important customers of the United States for agricultural products and other commodities. I think that has been repeated in a number of instances.

Senator EXON. With other research that is going on today that we have heard a great deal about, genetic research and others, have you done studies as to—if genetic reasearch works as well as it has been heralded to work, is that not likely to have a further revolutionary effect on the world food supplies and availability?

Dr. ARNOLD. Again, you will find substantial debate on that question because much of the application of genetic research is going to be defensive; that is, to keep one step ahead of the biological system which continue themselves to evolve and adapt in terms of insects and disease problems that affect both plants and animals, and to be able to stay one step ahead of that we're going to need to take advantage of all of the techniques and tools that we can. That doesn't necessarily mean that that results in a quantum increase in production or yield. There may be instances where that will be the case but it comes down to, again, a basic relationship between what is possible in terms of the inputs, the energy inputs that go into a production system in terms of the outputs, and whether there will be quantum increases in the output in relation to the energy inputs, I think is still very debatable. But much of what we see in terms of the focus is in developing systems, in many cases biological systems, to try to defend against insects and diseases which, again, on that efficiency and input cost side, which have not only an economic impact but also an environmental impact in terms of water quality and many other considerations, and the biotechnology applications are going to have a far greater impact there than they are in terms of total production in the minds of most of the scientists who are working in this arena.

Senator EXON. Dr. Arnold, thank you very much. We are very proud of the work that you and your institute are doing here.

Dr. ARNOLD. Thank you very much.

Senator EXON. I appreciate your response to my questions.

Dr. ARNOLD. One comment which I say with some risk. I recognize that having a hearing on the campus creates a challenge in terms of parking and if you do—anyone here has a problem of having your car decorated, if it is legally parked—if it is parked in a fire lane, I can't do much about it. But if it is legally parked, if you would refer those to my office, we'll try to take care of them.

Thank you.

Senator EXON. Shall we refer that to all of the students also?

Dr. ARNOLD. No, not to students.

Senator ZORINSKY. Would you just remain?

Doug, would you care to proceed with comments?

Mr. BEREUTER. Dr. Arnold, thank you, you have just made yourself very popular here.

I want to say, I, too, appreciate the hospitality that you extended here today but, also, to say that the kind of assistance and cooperation that we received from you, all of us received from you and your staff, the faculty and research is very much appreciated.

During the past 2 months, I think many people have been surprised to find that we had a net trade deficit on agricultural products in the United States. If you examine that, you find, of course, that most of that deficit consists of value added products, things that end up directly being imported and ending up on our kitchen table.

You made reference to the food processing center. I've watched that, I have been interested in it. I have visited it, as you know. I think you had more to do with the creation of that center than any other human. You are to be commended for that. I perhaps can say some things you find difficult to say, and I'm about to say it. I think that food processing center could easily be the most economic development factor in the State and a most readily workable tool for creating jobs in this State, and it relates directly to those value added products, moving from our rich agricultural bounty right up to processing in the State of Nebraska, helping farmers, helping people get jobs.

But I am also disappointed to say that despite the efforts of you and others at the University, it has been funded with a pittance. If we're serious about making an effort to stimulate our State's agriculture and agribusiness economy and creating jobs, you cannot drop a plink of money with a public relations flair and expect to get the kind of assistance we really need from it. If it was given its potential, I'm sure it would attract additional private sector funds from firms already in the State, as well as Federal funds and that those of us in the House and the Senate could be of greater assistance. As you have moved to increase the marketing and transportation elements that I'm sure are integrated parts of this effort to process food and to assist Nebraskans create jobs, I'm convinced that we could be of greater help to you if the base was established. It's an opportunity, I think, for the State to really make an investment in itself, and I hope that you keep pushing for an adequate appropriation for that effort, in fact, a superior appropriation for that effort.

Thank you for your leadership. I know it has—this institute or center has great possibilities.

Dr. ARNOLD. Thank you. I certainly appreciate your comments and your support, and that of all of the Nebraska delegation because of the efforts in this last year to redirect the Federal funds to help to develop the facilities for the food processing marketing transportation program; the support of the Nebraska legislature this last year to meet the matching requirements for that project which, of course, is related to the support from the many individuals and organizations who are in this room. It is a program that has had a good deal of support. It is a developing program at a time when it has been difficult to develop programs because of a declining revenue base within the State, meaning a decline in the support for the programs here at the university, but it has enjoyed in those circumstances very good support and we anticipate some increased investment in that program in the years immediately ahead. Also, it has enjoyed excellent cooperation from other agencies. The Department of Agriculture of the State and the Department of Economic Development of the State have supported this program and the working relationships have been very positive.

The integrated marketing transportation and food processing program is an effort to move agriculture in a direction that many have agreed for many years it needs to move to a more market oriented approach to be concerned about putting our production in a form that people want and demand, starting with a marketing definition as opposed to producing what we can and then figuring out how to market that.

Thank you.

Senator ZORINSKY. Thank you, Dr. Arnold.

Dr. ARNOLD. Thank you and, once again, welcome.

Senator ZORINSKY. I would like to call on State senator Bill Harris of the Nebraska Unicameral.

Bill.

STATEMENT OF HON. BILL HARRIS, A NEBRASKA STATE SENATOR

Senator HARRIS. Thank you very much. I want to thank you for the courtesy that you have given me in being able to lead off with the testimony as I was, along with several others, the introducer of the resolution which asked for this evaluation of the 1985 farm bill. I appreciate the opportunity to be here to discuss it with you. We all appreciate your concern for agriculture and what is going on in the State of Nebraska.

I have prepared some testimony with support material which you will receive, and I will keep my remarks relatively brief, but I do want to cover some basic points.[1]

In my opinion, the 1985 farm bill is an experiment which has failed. In a relatively short period of time, this program has performed the remarkable task of breaking the American farmer and the American taxpayer simultaneously. This bill will result in costs higher than any other farm program in history, but farmers are still unable to survive. Production continues to outstrip demand, resulting in a surplus of grain that is a national embarrassment and a testimony to the failure of current farm policy. Exports which were to increase as commodity prices reached market clearing levels, have steadily declined. In fact, the unbelievable has happened for 2 months in a row: The United States actually imported more agricultural products than it exported.

Nationally, our rural areas are facing disaster. Main Street businesses are disappearing, agricultural banks close their doors with predictable regularity, the rural population is declining and, as tax revenues fall, communities must cut back on services.

Internationally, our policies have so angered and threatened foreign producers that we are on the brink of a trade war.

Why has this experiment failed? I believe the free market system theory for agriculture was flawed from the outset.

It is estimated that only 5 percent of the world grain demand in international trade exists in a truly free market. The rest is either bought or sold in government-controlled markets or is restricted by government programs.

Our own Government distorts the agricultural economy with economic aid and political decisions that are beyond the farmer's control. The ever-increasing national deficit has kept the dollar and interest rates high, tax policy has stimulated production under tax shelters and bid up the price of land, foreign policy determines whether food will be exported or imported, and foreign aid programs have supplied technology to countries who used that aid to become our competitors.

As long as our Government continues to control the future of agriculture to such an extent, it has a corresponding duty to protect it. A farm program that sets community prices at levels covering the cost of production and allowing for a reasonable profit is the only means farmers have to counteract Government interference on the marketing or sales side of the industry.

The current farm bill does little to benefit the average farmer, yet he can't afford not to participate; therefore, it has become, in essence, a mandatory program. And since it lacks meaningful production controls, he produces more to make up in quantity what is lost through lower commodity prices.

I think the basic policy question facing us now, today, is whether or not we want agriculture to survive. The present policies, in my opinion, assure its destruction.

Agriculture holds a special place in our country, not only because it provides us with our most basic necessity, but because of the values it embodies and its importance to the overall economy. The need to protect American agriculture has been recognized historically. With the outbreak of World War I, foreign demand for food skyrocketed as Europe diverted its resources toward war. American farmers increased production to meet that demand, but as post-war Europe got back on its feet, demand declined, and wartime production became peacetime surplus.

---

[1] See pp. 134–44 for additional material inserted by Senator Harris.

It became apparent that external events could dramatically affect the farm economy. The recognition of that fact, after the Second World War, resulted in farm programs which dealt with supply in the form of price supports and acreage reductions. The current administration forgets the lessons of history. The current administration forgets that in the 1970's, record-setting high exports came together with record-setting high prices. The lower prices created by surpluses did not increase demand after World War I, when the world had a surplus of grain, and they will not now. It is not worth sacrificing all of agriculture to prove or disprove their erroneous theories.

I think it is time that we evaluated where their theories have led us. It is incredible that we are still listening to leaders and economists who have brought us to the point of record national deficits, huge trade deficits, growing national and international debts, commercial bank and savings and loan failures, a depressed farm economy, a domestic oil crisis, and now deflation.

It is time that we disregard the policies and recommendations of this group and set upon a new course which is based on history, economic theory, facts and figures, instead of notions and political decisions disguised as economic ideas. Until we are prepared to repudiate these failed concepts, our situation will only worsen, in my opinion, and we will threaten the very existence of American agriculture.

The people of this country have demonstrated their support for farmers. They were led to believe that the 1985 farm program would solve the problems of agriculture. Now, as the results become clear, and if our agricultural policy is not changed, we run the risk of losing the support of the American taxpayers as additional costs mount, with no solution in sight.

As decisions are made to allow the agricultural economy to continue to collapse, or as actions are not taken to prevent that collapse, the idea that Government programs do not work and that any further expenditure would be wasted, will become a self-fulfilling prophecy. Indeed, the failure of this farm bill could lead to the total withdrawal of support for agriculture.

Some time ago I referred to our country's economic situation as an economic Vietnam. I think the same analogy applies to agriculture as well. We are in the midst of an agricultural Vietnam. Once more, we are misguidedly following a course of action that is not realistic or effective. Once more, we are being told by our leaders that we must stay the course. And once more, we are having doubts.

In Vietnam, we worked under certain policy constraints which guaranteed failure. In agriculture, we face familiar constraints. Production controls are seen as Government interference in the so-called free market system; restricting imports is protectionism; developing the ethanol industry will be too costly to the American consumer. Our farmers face the same quandary as our soldiers did in Vietnam. No matter the amount of their sacrifice, courage or ability, government policies will not allow them to win.

I remember, in the last days of that disastrous war, seeing the last of our soldiers being evacuated from Vietnam by helicopter. I also remember that at that point in time there were those who still maintained that if we had stayed the course a little longer, we could have been victorious. It is our duty to demand to know how that victory could have been achieved.

As mounds of surplus grain appear throughout America, we will hear again that admonition: Stay the course and we will be victorious. But it is, again, our duty to demand to know how that victory will be achieved.

Thank you very much.

Senator ZORINSKY. Thank you, Senator Harris, for your articulate presentation.

Before I call on my colleague, Senator Exon, I would just like to recognize President Roskens of the University of Nebraska in the back of the room and take this opportunity to give our thanks to him and the taxpayers of the State of Nebraska for the use of this fine facility.

Senator Exon, do you have anything you would like to say?

Senator EXON. Senator Harris, I agree with everything that you had said. I mean, it's unusual for me to agree with everything that anyone says but I think you have summed it up very, very well, and that's what these charts around the room that I referred to earlier are all about. It tells the story that we are facing in the 1985 farm bill a false policy that has failed. It's going to fail in the future if we continue on that course. It's a policy based on an aberration, if you will, that somehow we are going to capture, hopefully profitably, that share of the international marketplace that we enjoyed in the late 1970's and early 1980's. That is not to be, it seems to me, because I think the whole shortsighted policy that we are following simply says that if we could get wheat prices back to $6 a bushel, where they were, and continue to export more and more at $6 a bushel on wheat and corresponding prices for other commodities, then we wouldn't have any problems in rural America. That was an aberration, and I think any policy that is based on working our way out of our present difficulties on that thesis is doomed for failure, as much as a failure as you have properly referred to it as our difficulties in Vietnam.

Thank you very much for your testimony, Senator.

Senator ZORINSKY. Doug.

Mr. BEREUTER. Thank you very much for your testimony. It's an articulate statement of your views, and I guess I would say that I am going to look at it very hard, and particularly the charts that are attached. The surplus grain to which you made reference, of which we have unprecedented amounts, not only in the United States and in the world is, of course, the product of previous agricultural policies of this country and of other countries. I am not unhappy with the fact that the Europeans are unhappy with the farm bill. I'm interested to see if we have elements of the 1985 farm bill that are failing us. But the grain that is there today really reflects the policies of the previous farm bill and policies that we have had in this and other countries, and the impact of this one, except for the wheat, is not yet seen.

I also think it's unfortunate that a variety of things weren't done differently in the farm bill; the failure to approve the Stangland-Glickman proposal, the rejection of the Bedell referendum. I think, was unfortunate, and I hope that there will be specific testimony from you following, perhaps, and from others here today which takes us from logically and rationally from point of problem to source of problem because that's what we need, and I thank you for your testimony, Senator, and for your initiative, particularly, for asking for a session with the members of the delegation.

Senator HARRIS. Thank you.

Senator ZORINSKY. Senator Harris, I join with my colleagues in complimenting you for an articulate presentation. I would just like to emphasize your concern about the export market as it exists right now, and our surpluses, and our inability to continue to exploit and to increase our exports today.

Even before this year's harvest, we had in stock enough wheat to provide 27 loaves of bread to each human being on this planet Earth. That's around 5 billion times 27 loaves, and that's only what our surplus represents. I think if there's anybody in this room that's going to be testifying before us today that knows of any kind of business or any kind of industry that can thrive and have stable economic conditions under continued surplus conditions, I would like to know what that business is. I don't know why agriculture continues to think it's the only industry that can survive under those conditions.

On my way down here this morning, I had the news on in the car and heard that General Motors just woke up and found out—normally they carry a 60-day supply of new cars, and a supply in the demonstration rooms of their distributors throughout this country—and they realize now that they have something like a 290-day supply and so that are going to, until October 1st, sell cars and finance them at 2.9 percent interest rates in order to get rid of the surplus cars. I didn't hear anybody—any announcer or anybody say; Does that mean to Russia, too, but I would assume any customer that has money to buy those cars will have access to a special bargain. But I think General Motors knows that if you produce more cars than you can sell, you better create a special or some way to get rid of them before you bring out any more.

I want to compliment you for your views on what is taking place now. Thank you, Senator.

Senator HARRIS. Thank you.

Senator ZORINSKY. I would like to now call on Don Hutchens, the director-designate of the Nebraska Department of Agriculture.

STATEMENT OF DONALD D. HUTCHENS, DIRECTOR, NEBRASKA DEPARTMENT OF AGRICULTURE

Mr. HUTCHENS. Senator Zorinsky, Senator Exon, and Congressman Bereuter, on behalf of departing Chuck Schroeder of the Department of Agriculture and myself, I would really like to start off by saying thank you for the efforts that you have shown here today to listen to the information of producers and agricultural organizations regarding farm legislation. I appreciate the opportunity to share with you a few thoughts and concerns regarding Nebraska's dilemma.

Last year during this hearing, there was considerable discussion regarding how many of the 59,000 farmers in Nebraska would survive this crisis. The range of speculation was wide, from 1 to 15 percent, so the Nebraska Deparment of Agriculture, along with eight other midwest States, conducted a 1985 farm finance survey. Sadly enough, Nebraska ranked number one, having the highest percentage, 6.4 percent, of farmers not planning on farming their farms in 1986. If we add 1987 in, the percentage jumps to 15.8 percent. This is one ranking we would rather reserve for the football team other than our farmers.

The trend of fewer and larger farms is starting to raise its head again, and that can be a devastating blow for Nebraska's communities.

This social and economic degradation of our midsection is not just a short-term problem but one that can haunt us for years to come. Just like the hog producer who sells all of his feeder pigs and won't have any fat hogs to market in 4 months, especially when the price is higher, Nebraska communities may suffer that same consequence in 5 to 10 years when we realize few young farm families will provide and maintain that economic base. With farm numbers on the decline, Nebraska rural communities are as vunerable as they have ever been. Farmers in rural communities are trying to be innovative by growing new crops, using new cropping practices and conserving the natural resources at the same time. They are looking for other uses for their commodities and cutting both production and living expenses, but they need help in that process.

The need exists to provide those displaced farmers and rural citizens with an opportunity to remain close to their heritage. That need has been answered mainly by the programs like Agriculture in Transition, a nationally recognized program which has placed over 600 farmers in job training activities in Nebraska. Also, financial counseling by the University of Nebraska and the community colleges have helped hundreds of farmers through these difficult times. The Managing for Tomorrow Program and the Farm Crisis Hotline addresses the crisis of today and the prospects for the future. These programs, as great as they are, can only address the wounds that rural people are experiencing. The time had come to address the problem itself.

Agriculture and trade policy almost seem to be shadowboxing in the dark, throwing wild punches, most of which are hitting the American farmer. Designing a farm bill and implementing the farm policies so they achieve the established objectives is not easy task; however, Moses going to the mountain and receiving the Ten Commandments was one thing; coming down the mountain and getting the people to follow them was another. Establishing an equitable agriculture seems as difficult.

I would offer the following three objectives for sustaining an economically-viable agriculture system.

One, direct or target the resources of government assistance where it can do the most good. The million dollar-plus payments to producers or the multimillion dollar payments to cotton middlemen are not limiting production or directing the funds to the producer who really needs them. If we are to have a payment limitation, let's find an acceptable one, honor it, and put those excess payments to better use. The use of loopholes within the program will result in political and public pressure to discontinue programs altogether.

Two, move or process the product. The U.S. ranks near the bottom compared to other countries for exporting value-added commodities, and we're losing ground fast as our balance of trade in aricultural products is at a deficit for the first time since 1959. This growing surplus of grain could better be characterized as galvanized tombstones for farmers if our trade issues are not answered soon, or if we fail to recognize adequate uses for those commodities. The recent evaluation by the USDA of using commodities for ethanol production seems to be more concerned with adding a few cents to the consumer's food dollar than helping farmers.

Three, provide reasonably priced credit. Innovative lenders who can restructure or extend loan payments will help stop the devaluation of land and help repopulate those rural communities. The Farm Credit System with a projected $1.8 billion loss this year, after a $2.6 billion loss last year, is clearly not a contender in providing reasonably priced credit to producers without incurring additional losses itself. Reasonably priced credit is important when you consider that Nebraska farmers and ranchers are holding over $9 billion worth of debt today.

Agriculture is looking for a floor on which to stand, and until we decide as a Nation to recognize the economic and social values of rural America, we are at risk. The Europeans learned years ago that the two most important objectives in their agriculture policy was a consistent supply of food supplied by a stable and profitable agriculture community.

If the purpose of the farm bill was to reduce the number of family farms while maintaining production and decreasing exports, and spending $30-some billion in the process, then it has succeeded. I would rather think it had good intentions, but timing and politics have left it distorted. In some instances, for example, the Conservation Reserve Program, and the use of CCC stocks to use toward ethanol production seem to be on the right track.

We need a policy today that at least considers the stability and profitability of the producer, whatever method accomplishes that goal, whether it's subsidies for retiring acres or subsidies for costly surplus storage, it will have to consider world production capabilities. Strong multilateral and bilateral trade agreements will be important as the globe continues to shrink.

Farm bills have always met with opposition, but the time has come to respond with a new wave of cooperation and planning for acceptable farm legislation.

Senator Zorinsky. Thank you, Don.

Senator Exon.

Senator Exon. Don, thank you very much. You have made a very interesting presentation, and I was particularly intersted in the gasohol part of your presentation.

With the general decline in oil prices and with the extreme depression that has hit the petroleum industry today, it would seem, unfortunately, that we are going to be relying more and more on imports of oil in the future. We're even now talking about building up our strategic petroleum reserve which, of course, as you know, a reserve to bail us out in case of a major catastrophe of some type in the world where we wouldn't have oil, and that strategic petroleum reserve is basically reserved for military uses and so forth. It seems to me that this is an opening, a wide open opening, especially with the terribly low price of grain today, for us to move aggressively into this field that we all have been working for for so very long, and that is to prove, once again, to the public at large—we've proven it here with test after test, but the public at large, and some of the major automobile manufacturers who, for reasons best known to themselves, are still persisting in fighting the blend of ethanol in gasoline. It seems to me that this is an opportunity and, as you brought out in your testimony, with the Commodity Credit Corporation stocks that we have, it would seem to be a natural to convert that into a blend at this time.

One problem that I think we are going to have there is with regard to the new tax bill that is going to pass in Congress because of the momentum behind it. But every report that I have read on that indicates that that new tax bill will be most discouraging to investment in plants, building, and equipment. It may be necessary, therefore, that we're going to have some additional legislation next year in the area of providing incentive interest rates, at least, for the construction of facilities to help us use up some of this surplus grain that we have. It's just one more area that we need to tap, I think, of the many areas that we need to tap, to work our way out of our difficulty.

Thank you for your testimony.

Mr. HUTCHENS. Senator, the idea that 300 million bushels of corn in this country went to the production of ethanol is no small amount. In Nebraska alone, we used over 4 million bushels of corn to produce ethanol, and mostly coming out of that Hastings plant.

I was extremely disappointed with USDA's last report took more concern over the consumer's food dollar and the fact that it would have little effect on that, when they even projected in their own numbers that over $2 billion of farm income could be derived from using ethanol and from raw commodities such as corn and milo.

Senator EXON. There isn't any question but what the chief policy that is continuing under this administration, as it has under previous administrations, both Democrats and Republicans.

Thank you.

Senator ZORINSKY. Doug.

Mr. BEREUTER. Thank you, Mr. Hutchens, very much for your testimony. I was very pleased that you pointed out the bad track record of the United States on value-added products, relatively speaking, and I would hope maybe you or your successor will end up testifying for the appropriations for the food processing center.

I want to compliment your predecessor and yourself for working with us, and the other members of the delegation, on the Federal funds for crop diversification and value-added products. I can tell you from action up this week up in Hartington that the people of northeast Nebraska like the way you have started up there, and thank you for that good effort.

I guess I would ask you if you could give me a couple of examples of what elements in the 1985 farm act are now causing demonstrable negative effects so that we might know where we look for immediate change and whether or not the administration has flexibility. Can you give me some areas where you can show demonstrable effects already of an element of the 1985 farm bill that's causing obvious problems?

Mr. HUTCHENS. Sure. You know, I think, first of all, that Nebraska farmers normally feel very good about what they produce. Today it is very difficult for a Nebraska farmer to feel good about the fact that he is producing a surplus that goes into storage and sets either right on his farm or in his local community. That lack of generating dollars there, that lack of generating enthusiasm for their own occupation poses an extremely difficult problem for the farmer himself and the communities. I think that surplus built up right there and not seeing it go to a specific need or a cause is one of the most important things that we could correct today.

Mr. BEREUTER. Do you think that we will create in the United States more for surplus this year than we did last year?

Mr. HUTCHENS. Just in Nebraska alone, we look at the numbers of 896 million bushels of corn, and 120 million bushels of milo, and 90 million bushels of soybeans, and the fact that we're going to be short of storage in Nebraska, somewhere around the tune of 100 million bushels storage.

Mr. BEREUTER. That's a good answer, but it's Nebraska's specific problem and I am counting our blessings that the weather has been so excellent.

But on a United States basis, do you think we're going to make a larger—are we going to have more production across the United States in feed grains and soybeans, and wheat this year than last year under the previous farm program?

Mr. HUTCHENS. I think we're going to see it maintain where it was last year and increase slightly, yes.

Mr. BEREUTER. Thank you.

Mr. HUTCHENS. One thing I would like to comment on, Congressman, is that the Department of Agriculture through the seventies rarely needed to take an advocacy role. In the last 3 or 4 years, we have—because of the times, we have seen a demand for an advocacy position by the Department of Agriculture in this State. One of the things that we have expanded, a lot because of the support that we have received from the congressional delegation, and receiving this $120,000 grant from the Federal-State Marketing Improvement Program will, at least, allow us to become more involved with the food processing center, to assist that value-added category. The United States ranks, I think, around 10 percent of exports are in a value-added form, and when we compare that to France, 70 percent of their exports are in a value-added form, we're clearly down the ladder.

Mr. BEREUTER. I couldn't agree more. Thank you very much.

Senator ZORINSKY. Don, in the 1985 farm bill, the Secretary of Agriculture has discretionary authority to convert all or some, or as much of as he desires of the CCC surplus stocks into ethanol for strategic petroleum reserve as we do with oil. We have lately decreased the amount of oil we are putting into the strategic petroleum reserve, probably because it's too cheap now. We will wait until it goes up to $30 a barrel and then we'll buy it and put it in storage. But we do have that authority in the 1985 farm bill, and I would hope that the Governor in meetings with other Governors may unite them to make some recommendations to the Secretary of Agriculture to exercise his discretionary authority to decrease our surpluses by conversion of stocks to ethanol for strategic petroleum reserves. USDA, however, has done none of this to date, while we have a $700 million annual storage bill to present to the taxpayers of this country and many people in the administration say we're spending too much money in the commodities area of agriculture in this budget. USDA clearly has the ability to decrease storage costs by the conversion to ethanol.

Mr. HUTCHENS. Part of my enthusiasm for ethanol, I guess, is after serving on the Gasohol Committee for 2 years and working with people like Ralph O'Connor, it's not only practical and good business but it has a clear opportunity to make a dent in something similar to strategic ethanol reserves, and Nebraskans themselves are putting money toward the production of ethanol facilities. They've just passed a new checkoff that will have the capabilities of looking at new ethanol production and food processing in the State of Nebraska. They are paying part of that portion themselves. It's not just a tax subsidy to producers.

Senator ZORINSKY. Thank you, Don.

Senator Loran Schmit of the Nebraska Unicameral.

STATEMENT OF HON. LORAN SCHMIT, A NEBRASKA STATE SENATOR

Senator SCHMIT. Thank you, Senator Zorinsky, Senator Exon, and Congressman Bereuter for this opportunity to be here today.

I certainly do appreciate your taking the time to come to Nebraska and to gather testimony from those of us who have an opinion relative to the Food Security Act of 1985. I recognize also that it's not possible for all of us to go into the detail that you would like to have, but there are some additional remarks that will be available to you.

Senator Tom Vickers asked me to express his regret for not being able to be here. He is cutting silage and does have some prepared remarks that will be turned in.

And I certainly want to say that others of the Nebraska legislature have conferred with myself, Senator Vickers and Senator Harris, so our testimony—so the remarks that I make here today are somewhat a consensus of remarks of those with whom I serve.

I appreciate this opportunity to testify and I'll try to be brief and to the point.

As I recall the promises that were made with the passage of the 1985 Food Security Act, we were led to believe the net farm income would increase the exports of farm commodities, and that the carryover surplus of farm commodities would be decreased. We were also told, I believe, that this would be accomplished for a 3-year cost of approximately $51 billion. We are told that a 3-year program was necessary because it would take that long to return to the benefits of a market oriented system. The first year, very frankly, has been a disaster. By its own admission, the USDA has not conceded that the first year program cost may reach as much as $35 billion. I would predict that the cost might even exceed that figure. I might also add that that amount would be the equivalent of about $3.50 for the annual production of corn, wheat, sorghum in the entire United States for each bushel, not to mention the fact, of course, that there are other costs involved.

The export of agricultural commodities has decreased and, in fact, we will now import more agricultural products this year than we will export.

Net farm income will decline this year, notwithstanding some remarks to the contrary. Carryover supplies of commodities will increase. On three of the major points of the bill, the farm bill has already struck out. The price of corn on the free market today is at a 27-year low; $1.41 per bushel at one of my local elevators this week. When USDA officials tells us that it will take several additional years to turn the market around, I must say, for the record, that agriculture has been experiencing a serious decline in net farm income since October 6, 1979. When interest rates were deregulated and the cost of credit for farming operations escalated to all time highs. We were also told that with the decrease in inflation we would have lower interest rates, notwithstanding a national prime rate of approximately 7½ percent, a Federal discount rate of approximately 5½ percent, and passbook savings, in some instances, of less than 5 percent, and the cost of money for farm operations remains excessively high.

The Federal Land Bank, the principal lender for long-term agricultural credit, is, I believe, still charging 12.75 percent for those long-term loans. Most operating loans at country banks are between 11 and 14 percent, and most rural banks that I know of are not looking for any agricultural customers because they know it just simply is not profitable to loan money to those individuals of us who are farming. It is very difficult to repay a loan from the income produced from that business. It is easy for the supporters of the bill to locate isolated individuals who insist that they are earning money in today's agricultural industry. But you need only walk down the street of any first- or second-class city in Nebraska to understand the fallacy of that argument.

Two of the banks in my home county have failed. Three of the remaining four either have reorganized or are attempting to do so. Butler County has not suffered severely from adverse weather conditions during the past 7 years. A widespread drought in Nebraska would mean total disaster for virtually every farmer and businessman in Nebraska.

I refer again to Senator Tom Vickers and the people in that area who are experiencing drought this year and who will not benefit from the crops that we have and without a major bumper crop, of course, and these kind of prices, they will face that kind of a disaster this year.

There are those who will point with some pride to the strong market for hogs at this time. The main reason the hog producer is earning a profit today is because of low-priced grain. The cattle feeder who is earning a profit is doing so because either he bought the cattle for less than the cost of production from the rancher and/or because he brought the corn for less than the cost of production from the farmer. Hardly a satisfactory method of achieving prosperity in the livestock industry. The whole herd dairy buy-out program was hardly mentioned during the passage of the bill, although I was informed of it through your offices and did discuss it with all of you at some time or other, although it did cost the beef industry, beef cattle industry, approximately $6 billion by the estimates of the National Cattlemen's Association. That association, with some assistance from the Nebraska Livestock Anti-Trust Association, had to take legal action to force the Department of Agriculture to implement a less disastrous method of marketing the surplus dairy animals. I predict that when the entire operation is completed, the total production of dairy products in the United States will still exceed or, at least, equal the amount that were being produced before the dairy herd buy-out program was implemented.

There are several provisions in the bill which could be helpful, but at this time are not being utilized because the implementation authority is discretionary with the Secretary of Agriculture.

I would offer these suggestions: The Secretary should exercise his authority to utilize surplus commodities to assist in the Food for Peace Program on a massive level. He should also use the authority in the bill—one of the amendments offered by Senator Zorinsky—to use surplus commodities to help develop alternate systems of energy. It is my understanding, after conversation with you gentlemen, and/or your staff, that the Secretary could right now convert the entire supply of surplus grain stocks to agriculture [sic] to be stored as a part of the strategic fuel reserve of the United States, and I think he should do that. I would hope that we would use the surplus stocks to assist the Nebraska Shares Program, which I've discussed with some of you, which demonstrated last year that direct food aid can be given to the starving people of the world.

I would hope that the surplus commodities will be available to assist in the development of an alcohol fuels program here in Nebraska, mentioned by the previous witness, sponsored by the Nebraska Legislature, with the passage of LB 1230. It makes no sense to me that the American taxpayer will maintain a $35 billion expense for the first year of the farm program without any appreciable long-range benefit to farmers when a total investment of $10 billion in capital construction of alcohol plants would produce sufficient distillation capacity to utilize the entire surplus commodities of this country for the next 40 years. It has been 15 years, Senator Exon, since you signed the first bill into law here in Nebraska that started the alcohol fuels program. We have gone from young to middle age during that period of time and——

Senator EXON. You have, not me.

Senator SCHMIT. Congressman Bereuter entered the legislature and went on to greater goals during that period of time and we are still struggling with the program. And, unfortunately, it seems to be—the emphasis on it seems to come mostly from the Middle West, and with severe deterrence from other portions of the country.

The USDA does not believe that the production of ethanol alcohol is feasible. I would like to remind them that $1.40 corn and $2 wheat is not economically feasible also,~~and~~ that the livestock market disrupted to the tune of $6 billion because of the adoption of a dairy herd buy-out program is not economically feasible for the livestock feeder also.

I understand and commend the Congress for its sincere effort to try to assist in the restoration of profitability to agriculture. I understand how difficult it is to draft legislation and to have it enacted into law, but the facts are that the present program has not worked and I do not believe it will work. We were told that a lower cost dollar and lower interest rates would increase the exports of our commodities. It is plainly evident now that we are not going to be able to export our way out of this problem, and that we must, therefore, design an internal method of utilization for our surplus commodities. Any commodities not utilized to feed starving people in a Food for Peace Program ought to be and could be economically converted to ethanol production in our engines on our own farms just as the surplus grain production was used 50 years ago to feed the horses that provided the power for our farms at that time. Mr. Howard of the tractor division of the Ford Motor Co. has stated emphatically, as I said earlier, that ethanol alcohol is the best alternate fuel available. They are at the present time modifying their diesel engines to use complete alcohol fuels, and they are going to experiment with those engines in cooperation with the University of Illinois this summer. I think we should pursue that area and attempt to try to utilize a complete ethanol alcohol program.

I want to thank you for having this opportunity to appear and I again commend you for coming to Nebraska to listen to us here in Nebraska.

Thank you, Mr. Chairman.

Senator ZORINSKY. Thank you, Senator Schmit.

Senator Exon.

Senator EXON. Thank you, Mr. Chairman.

Senator Schmit, thank you for coming here this morning.

The first time I ever met you, you were planting corn on your farm in Butler County, so you're a dirt farmer and you're a leader in the Nebraska Legislature, and as much as anyone else you have been the father of the gasohol program, and I have worked with you on that for many, many years, and I appreciated that part of your testimony.

I also appreciated that part of your testimony with regard to the expansion of the Public Law 480 program. That's necessary.

Most of the things that we talked about thus far here this morning though and we talk about so often is: What are we going to do to get rid of the surplus that we have now?

Let me ask you if you can give us any ideas as to the future, as to what we should be doing, in addition to Public Law 480, in addition to ethanol and gasohol. Obviously, I'm sure you agree with me that we probably should be putting more concentration into maybe shipping finished products overseas rather than raw products overseas. That is not only going to use up our ability to produce this high quality food here but, also to manufacture and ship it here, provide the jobs for the people that we want to keep their standard of living up in the United States. Specifically, do you have any ideas with regard to legal changes, by additions to or scraping the 1985 farm program, and in 1987 writing a new one?

How do you feel? I'm very intersted to know how about the seemingly acceptance by more and more farmers of some type of—I had to use the word but I think we've got to be forthright—mandatory production controls to force prices up? What do you think of that, as one of the leaders of the legislature and a dirt farmer yourself?

Senator SCHMIT. Well, Senator, normally it goes against my wishes to—first of all, to be specific, I guess, which the Congressman knows very well. But I'm normally a full production-type person, and I think most of us like to feel that way. I think that we've always felt that because of our great capacity to produce, we ought to be able to do so economically and competitively, and we've been geared to that. Unfortunately, for some reason, we have not been able to design a method of utilization of that production, and I have not seen a mandatory control program that I can really endorse, but it looks to me as though there has to come some kind of a controlled program unless we find a method that will utilize that production. There is no way in this world we can continue to pile up the surpluses that we have today.

In about 2 months from now, when those elevators and farms are inundated with a wet corn crop lying on the ground to deteriorate out of doors, to further cause problems with our grain supply, cause problems with our exports, we're going to really wonder what the dickens we can do with it, and I would suggest that—as I said earlier, I think we can put it right back in the engines of the farms of Nebraska, but we have been talking that for 15 years. We have had a program here in Nebraska for 15 years, and only this week the USDA says it is not feasible. I contend that it is feasible and that it ought to be done, and Senators Harris, Vickers, Rod Johnson and myself put together LB 1230. It's a checkoff program to put farmer money into this program. I recall in 1980, we talked about this very program, when we were talking about, Congressman, the requirement that the farmers invest their money in alcohol plants. And they said, "Well, we can't do it. What is going to happen when corn hits $4 a bushel?"

I said, "What are we going to do when corn gets below $3"?

They said, "We'll never see $3 corn again."

Now we're beginning to think we won't ever see $3 corn again, but we're looking at it from the bottom up instead of the top down, and so something has to be done; one of two things. We either have to utilize it internally here in our own country as a fuel or else we have to have some kind of control because there isn't any way that we can continue to pour the production into the pipeline without having some kind of utilization.

Senator EXON. Thank you, Senator Schmit. I guess we all know that we've got to make a radical change of some kind. You know, in the last few years we have increased the cost of farm programs by threefold, or fourfold, about three or four times. At the same period, the family-sized farmers and ranchers are going broke three and four times faster than they did before. Now, I don't know what the reason for all of that is, but it's obvious that it is there, and I think we're going to have to have a radical change of some kind, and there's no easy solution, as we all know, but we appreciate your testimony and we look forward to hearing from other experts in the field who are out there trying to make a living out of farming, and that's what we want to hear today, those whose future and the future of their families are going to depend on whether or not we can structure a farm program that will allow them to stay on the farms. That's why your testimony is so important. I thank you.

Senator SCHMIT. Thank you, Senator.

Senator ZORINSKY. Congressman Bereuter.

Mr. BEREUTER. Senator Schmit, I agree. Thank you very much for your testimony.

I haven't seen you since we rode together in the parade at the DeWitt Czech Festival and I think we might have shocked, but also pleased, the Butler Countians by doing that.

Senator SCHMIT. As I recall, Congressman, they blamed me for the low price of farm corn and let you get away—for corn on the farm and let you get away scot-free.

Mr. BEREUTER. Well, if that's the case, it was an interesting arrangement.

Senator SCHMIT. Oh, you did defend me, I recall.

Mr. BEREUTER. I think you've provided leadership in so many areas but, certainly, most notably in the area of gasohol and alcohol fuels and you're to be commended for that.

I have two related questions. One point is this. We all know that ethanol is a great octane booster and yet a product of the petroleum refining process is something called benzene and it's carcinogenic and yet I don't see this being promoted as something that ought to be replaced with something that's grown in our cornfields, and I think it should be. I have been pushing a bill to do that. If you have any ideas about how we can give that more emphasis and a concern that health—the health concerns that sweep the country, I think it could be a boost for our ethanol production.

Second, you mentioned the Food for Peace Program and its potential. I do think we ought to deliver most of our foreign assistance by commodities and, as Senator Exon brought up, value-added products, and I want to continue to solicit your help there and your ideas.

To give the audience one example, last year the single, largest source in the United States of processed grain products for our Food for Peace Programs and African Aid Assistance Program was in Crete, NE. The Crete Mills was at an all-time high-employment base of 205 people. You've been patient and tenacious on ethanol, in pushing that. My second question comes back to your view as to whether or not we can keep the tax incentives that we have in Nebraska to encourage the use of gasohol. We had to have the reduced, apparently, because of the road lobbyist concern about the reduction in revenues. Do you think we'll be able to hold onto what we have so that we can sustain the Federal rebate?

Senator SCHMIT. Well, Congressman, that's a question that could be better asked of my good friend and colleague Senator Warner who was concerned about the adverse impact upon the roads program. As you know, the highway lobby is very effective.

Mr. BEREUTER. I know you're opposed to it.

Your ideas about——

Senator SCHMIT. I think that we will—we have agreed to sort of phase it out, but I think that, hopefully, the provisions of LB 1230 will provide some revenue, some equity capital for some plant construction.

My concern with the subsidy that we gave was that it was not passed on to the consumer. As you recall, when we passed those bills in the legislature—Senator Exon will recall—the intent was to subsidize the sale of unleaded gasoline with alcohol added so that it would not exceed the price of unleaded gasoline. We both know that in most instances the price of gasohol exceeded the price of unleaded gasoline, so the distributors, the retailers, in some instances, or the jobber, we don't know who, was taking the tax credit and pocketing it and was not passing it on to the consumer. Had they passed it on and sold the gasohol at the price equivalent to unleaded gasoline, I believe we would have even further increased the utilization of gasohol. And I think that we ought to take a real good look at it. I would like to sit down with you sometime and discuss that because it should be done.

Mr. BEREUTER. Great. I appreciate your support on trying to reduce the benzenes or BTX's out of our gasoline, too.

Senator SCHMIT. That's a good point, very good.

Mr. BEREUTER. Thank you.

Senator ZORINSKY. Thank you, Senator Schmit.

I just want to compliment you on your sustaining efforts to better the plight of agriculture and certainly hope to continue to work with you to that end.

You know, I've talked to many people in this room in coming in here, to some members of the news media, and I don't think anyone in the room will disagree the object of a farm bill should be to—and when I ask people: What do you need in agriculture? What is wrong with the farm bill? How do you think we ought to change it? The bottom underlying solution to this problem is three words. And I know we're going to have some people here testifying from many, many areas of agriculture, including banking, that it isn't borrowing more money, it isn't specifically interest rates, it isn't specifically anything other than, "We need higher commodity prices."

[Applause.]

The purpose of this hearing is to try to evaluate this farm bill with respect to how to go about getting to that goal, and many of us are on different tracks trying to end up at the same place. And, of course, we've already discussed—many times referred to the surplus, and it's going to be hard to raise any commodity prices as long as that surplus sets there and overhangs the market, so I think one of the things we've really got to zero in on is how to get rid of it short of dumping it in an ocean somewhere, but there has got to be a way and until we do that and resolve that, we're going to still be looking for higher commodity prices.

Senator Schmit, we've known each other many years and I respect you and certainly you're very well versed in agriculture being a farmer yourself, and certainly I would hope that you continue to give input into our office with regard to your ideas on how we can accomplish that.

Senator SCHMIT. It will be easier if you don't raid my staff any more, Senator.

Senator ZORINSKY. They are very excellent. You train staff so well.

Senator SCHMIT. I want to thank you and each of the members of the delegation here today for your efforts on our behalf. We do appreciate it. We know it's very difficult, and we know that you do have our interests at heart. Thank you very much.

Senator ZORINSKY. Thank you, Senator.

Next, Larry Hall, the president of the Nebraska Farmers Union.

STATEMENT OF LARRY HALL, PRESIDENT, NEBRASKA FARMERS UNION

Mr. HALL. Good morning, Senator Zorinsky, Senator Exon, and Congressman Bereuter.

My name is Larry Hall, and I am president of the Nebraska Farmers Union. Recently, as I glanced down upon our morning newspaper, the front page headline read: "Personal incomes dive in farm States." The paper was lying upon a literal stack of clippings, a desk top full, all testifying to the seriousness of the manmade agricultural depression, the administration's disrespect and disregard for the wishes of our agricultural producers, and the desperate need for major changes in our farm program.

The Farm Credit System is the Nation's largest farm lender. Last year it lost $2.5 billion. This year it will lose up to $1.8 billion. Next year it expects to lose $1.5 to $1.8 billion once again, according to Frank Naylor, who is chariman of the Farm Credit Administration.

In the period from January 1 through July 31, 231 farm and ranch bankruptices were reported in Nebraska. That's 31 more than the 200 that were reported during the same period last year, according to the Nebraska Department of Agriculture.

Framland Industries announces it will eliminate about 750 jobs, nearly 10 percent of its employment, by September 1.

A Lincoln newspaper reports July 23: "Nebraska welfare roles continue to grow in fiscal year 1985-86 with the State's rural areas accounting for nearly all of the increase."

Senators and Congressman, the recent wheat poll in which nearly 70 percent of the Nebraska ballots were marked "yes" said it all. U.S. farm policy is headed in the wrong direction. Farmers want, and the country desperately needs, a dramatic shift to a practical and effective farm program built upon the concept of supply management.

To approximately 96 percent of the U.S. population, not considered farmers, supply management would save billions of dollars in taxes. As President Reagan said recently himself, "This administration is spending more on the farm program in one year than has ever been spent on a farm program in our history." Some estimates approaching $35 billion, and the program doesn't work. A supply management program with a loan rate set at approximately 75 percent of parity would cost a fraction of the amount being spent this year.

To the blue-collar workers who carry the lunch pails, a farm program based upon supply management means jobs. Bill Casstevens, vice president and director of the United Auto Workers Agricultural Implement Department said recently, "The farm depression has spilled over into farm machinery where tens of thousands of UAW workers have lost their jobs. During the past 6 years, employment in the agricultural implement section of their union has declined by 65,000, or 56 percent. Thousands more have suffered repeated layoffs and short paychecks as the industry struggles through its worst slump since the Great Depression." The United Auto Workers' vice president goes on to say this, "The economic policies of the Reagan administration have worsened the problems facing agricultural implement workers and the farm community generally."

Agricultural suppliers have struggled along for the past several years on a margin of profit ranging from slim to none. True, supply management will reduce crop production, and the volume of ag supplier's sales, but the bottom line is not volume, the bottom line is profit, and profit margins will increase as profitability returns to the farmer through a program based upon supply management. It's better to sell less with a bigger profit margin and greater assurance of payment than to sell today's volume at today's margin of profit with little assurance of payment. Many fertilizer dealers have gone bankrupt not because of a lack of volume but because of their uncollectable accounts.

As for the livestock producer, cheap grain simply means cheap hogs and cattle. We all know that. If a producer can't make a profit by the bushel, he'll try to make a profit by the pound, on the hoof. The present farm program, based upon huge volumes of cheap grain encourages domestic overproduction of cattle and hogs, and a continued build up of poultry, which is one of red meat industry's real competitors.

The Reagan administration's misguided policy of driving down our grain prices to capture a larger share of the world market is a dismal, dismal failure. Our prices and export bonus program have angered friendly nations, hurt farmers in developing nations, and made us the laughing stock of the Soviet Union. The Communists who sit back and chuckle while the United States competes with other producing nations to see who will sell their grain the cheapest.

[Applause.]

This fall, millions of bushels of our grain will lie in spoiling piles upon the ground, and disastrously low prices will be pushed even lower as prices are discounted. Some of this could have been prevented, but the USDA failed to respond to reasonable requests which were based upon sound judgment. Requests to allow corn still under loan to be moved out of Nebraska elevators to other points where storage was available; thus clearing our bins for this year's harvest. They didn't respond to that request.

Then there are the oil companies whose "no alcohol in our gasoline" signs have attempted to tarnish the reputation of one of our finest agricultural products, ethanol.

Gentlemen, your committee could perform a real service for agriculture by investigating this oil company smear campaign and exposing it for the sham that it really is.

Nebraska's agricultural producers and their struggling rural communities are locked in the grip of a financial depression which promises only to worsen if we continue to pursue present farm policies. Policies which have driven farmers from the land, collapsed rural banks, closed machinery dealerships, boarded up stores on rural main streets, cost thousands of jobs, created unbelievable family stress, suicides, and heartache.

These problems are devastating, but they are man-made, and they can be solved with man-made solutions a new farm program, a drastic turnaround from the disastrous direction we have taken, a new program in the direction of a supply management policy that will return profit to our farm people in the marketplace, drastically reduce the cost of this farm program that we have got. The challenge to survive and succeed is upon us, and the time for action is now. Thank you.

Senator ZORINSKY. Thank you.

Senator Exon.

Senator EXON. Mr. Chairman, thank you very much.

Larry, I want to welcome you here. I want to associate myself with your excellent statement. It's right on point.

I think I know the answer to this question but I'm going to return to a theme that I asked of a previous witness. When you of the Farmers Union talk about supply management, that's a term that has been around for a long, long time. Do you not mean with supply management under the present day situation the dire circumstances that face us unless we do something, that you're including in supply management mandatory controls of some type?

Mr. HALL. That's correct, Senator Exon. That's exactly correct. And in regard to a question that I think you asked previously, about how do we deal with the oversupply that we have, the surpluses that we have, in the first place, you don't produce surpluses like we have. The United States has become the world's storehouse for grain. It's time that we shifted to a policy that returns a fair price to the farmer in the marketplace in exchange for a reduction in production. Let us produce for sale and let the rest of the world produce for storage.

Senator EXON. Well said. I just hope that farmers in general will recognize—and as Loren Schmit said, the words "mandatory controls" is adverse to everything that he has ever believed, but the circumstances are such today, it seems to me, that unless we do something like that, we're going to have more of a disaster than we think we have right now. I would just simply say that I think basically in the farmbelt we are going through that period that the tobacco farmers and the peanut farmers went through 10 to 15 years ago when most of the farmers and most of their organizations for years wanted to continue to grow as many peanuts and as much cotton, peanuts, and tobacco leaves as they could.

Finally, they recognized that by reducing production through mandatory controls they put prices up. Now, I recognize that you are talking about a relatively small number of farmers in tobacco and peanuts. It's more difficult to do that in the more major food crops that we have. But still it seems to me that the mandatory controls, production controls to the point where you can't grow any more than this, it's illegal to grow any more than this, has done very well for the farmers in those two products, and I think that maybe we can learn something from their book with some variations.

And from all of the farmers I have talked to, whether they agree with production controls or mandatory controls, or supply management or not, they are ready to make their fair share of the contribution to solve the problem. They're not simply saying, "Look, we're going to continue—we want to continue to produce just as much as we can and it's your job back in Washington, someplace else to get rid of it for us." They know that they are the producers and they recognize by and large that they are producing more than they can produce at a profit and I compliment the farmers and their organizations regardless of how they're thinking about some of the specific suggestions that have been made, recognizing the need that they want to help out, and I find that universal among farmers and ranchers today. They're ready to put their shoulder to the wheel if other people will join them.

Thank you for your statement.

Senator ZORINSKY. Congressman Bereuter.

Mr. BEREUTER. Thank you, Larry, for your testimony. You have been very graphic in what you think the conditions are and who you think is responsible for them. It's most important to ask you what you are for in replacement of existing policies, and Senator Exon began to explore that because I see that you have been specific that you are for supply management, and definitions are all important.

I guess I have this series of related questions for you now or as your organization has the time to look at this in greater detail.

Are you for a two-tier price system? Are you for something like the Bedell approach? Are you for some adaptation of European Communities' common agricultural program? And given the fact that some of the predictions—I think you might agree about the land that would have to be taken out of production for the first year or two, given our huge surpluses now, what will you propose to do for the first several years, 1987 and 1988, if we would make changes? How would you protect the farmer and especially the rural communities, and Nebraska's economy in this transition as we move to a mandatory program which, incidentally, a poll in June, I now find in Nebraska the support for mandatory controls has increased among farmers in my district to 25 percent. That is a substantial increase in 2 years when we did a similar kind of poll. Those are the questions. If you want to start today on them, I think we really need to know what goes with mandatory controls and what goes with the domestic use versus export side of a possible two-tier system.

Mr. HALL. Sure, and certainly reasonable questions. Congressman, it's my understanding—first of all, we should say that the Farmers Union is also a national organization and we do have full-time people who are involved in activities in Washington, DC, out of our Washington office, our national office, as well as our national president, and they have been watching, monitoring, working very closely with some new proposals which are about to be unveiled, I think, sometime probably in September by Senator Harkin. I have not had the opportunity yet to read the full proposal, although we have requested a copy of it. But I can say to you that it would start out, as I understand it, based upon the concept of a loan rate set at 75 percent of parity instead of the disastrous loan rate that we have today.

The loan rate would be set at 75 percent parity to start with. There would be no such thing as a target price or a deficiency payment. It makes no sense. Frankly, we think it is stupid to continue this policy of overproduction and selling our grain or, at least, attempting to sell our grain on the world market at less than the cost of production. It hurts the farmers in the Third World nations that we have professed as wanting to help for years to get them started. They just begin to get a toehold, develop their agriculture, and now we read that in some of the South African nations they can import grain for $90 a ton and it costs them $150 a ton to grow their own.

Mr. BEREUTER. So, Larry, that eliminates——

Mr. HALL. It's devastating to their own farmers.

Mr. BEREUTER [continuing]. That eliminates the Bedell approach, that eliminates a two-tier system, that eliminates some adaptation of the European Communities' approach because that's exactly what the common agriculture policy does, dumps their produce on the rest of the world, so that narrows it, doesn't it?

Mr. HALL. Well, having not seen all of the details on it, I couldn't comment on that, Congressman.

Frankly, Congressman, we are telling you that what we have now does not work. It is not working. It is devastating our farmers. It is devastating our rural communities, churches, our families, and we're saying that—and we can document that. We are saying to you, Congressman, this is the philosophy, this is the direction in which we want to move is a supply management program. Details are what we hired you for.

[Applause.]

Frankly, the message from Farmers Union and many other groups to those people that we hired is, "Work them out. Work out a solution," because if you're not working on a solution, we consider you to be part of the problem. And those people who have called themselves farmer Congressmen will find themselves called former Congressmen in November.

[Applause.]

Mr. BEREUTER. Well, Larry, I know that brings good applause. Senator Zorinsky and his counterparts——

Mr. HALL. Congressman, I would have told you that in private with no one around.

Mr. BEREUTER. I'm not being argumentative. People on the House Agriculture Committee had countless hours of testimony during 1984 and 1985 trying their best to put together a farm bill. Ultimately it came down to a bill that—the House of Representatives, for example, received more support from Democrats than Republicans, but it was a bipartisan product. It was the art of the possible, and all I am saying is we want to hear specifics whenever they are available, and we don't duck, I think all of us would agree, responsibility to make decisions but, obviously, we benefit from specific input from our constituents.

Senator ZORINSKY. Thank you, Congressman.

Larry, getting back to a comment you made about us getting the details ironed out and figure out with respect to how we're going to get this accomplished. Well, August 15 I did just that. I sent a letter to Secretary Richard Lyng of the Department of Agriculture, and I just want to read just this small portion into the record because it deals with how you go about answering some of the good questions that the Congressman asked with regard to: Whether you favor a two-tier price approach and how much acreage we are actually going to have to set aside to accomplish production controls, and this is what I said to Secretary Lyng:

> I again urge you to use your broad discretionary authority or that granted to you pursuant to the Food Security Act of 1985 to implement such a program.
>
> And as you consider your options I ask you to keep in mind the following facts, and these are facts: That the estimated production of wheat—taking that crop—for the crop year 1986 was 2.166 million bushels. The estimated total disappearance for marketing the year of 1986—that means what we sold, what we exported and used for Public Law 480 and other purposes—was 2.175 million bushels.

Now we produced 2.166 million bushels and we got rid of, in 1986, 2.175 million bushels. That's almost a washout. Now 15 million acres of wheat representing a productive capacity of over 500 million bushels were not enrolled in the Government Wheat Program for 1986 and, therefore, they were not subject to the set-aside requirements. The current 1987 Voluntary Wheat Program contemplates a 27.5 percent unpaid set aside that increases to 30 percent for 1988 and beyond with the anticipation that paid land diversion may be necessary to reduce production even further.

Now that's under the current law so, therefore, implementation of a production control program for all wheat acreage, because right now there's voluntary participation where 500 million bushels were not enrolled in the program, so implementation of a production control program for all of the wheat acreage would require a lower percentage of idle acres than the current program in order to bring the current year's supply into balance with demand. So these people that say, "We've got to get 65 percent of the acreage out of production" don't know what their figures are, have never sat down and looked at this, including the Secretary of Agriculture, because with controlled production you'll set aside less acreage than we are setting aside under voluntary enrollment in a farm program under today's farm laws. Now I'm bringing this out to Secretary Lyng because I'm sure he is not cognizant of this washout of our production versus what we are getting rid of right now.

The voluntary aspect of the program allows overproduction because of the large number of farmers that aren't enrolled versus a program of mandatory controls where they all would be enrolled, which spreads out the reduction to a lesser extent than we do right now in the farm bill. This is one of the items that we have to get people to appreciate back there in Washington, not out here, because I think most of the people out here already understand.

Again, Larry, I want to associate myself with your remarks and I think you very articulately presented them and look forward to continue to working with you. Thank you.

Senator EXON. Ed, could I add one thing?

Senator ZORINSKY. Sure.

Senator Exon. You're right on point with an article that appeared in the August 3 New York Times. The New York Times is not very important in Nebraska and the Farm Belt but the New York Times is extremely important back where we rely on the people to buy our food, hopefully at a profit. I want to say that I endorse a two-tier price structure. Normally I would not do that but I find myself in a position with Loren Schmit and others who was always adverse to mandatory controls. The headline here is: "Looking Abroad to Fill our Bellies," and it goes on to tell why in the last 2 months we've imported more food into the United States than we have shipped abroad. And one thing, I think that imported food is flooding the market at prices that American farmers can't possibly match. The insult of insult appears to be coming from Canada whose wheat is being shipped to New York and other border States. Wheat was the one food that American farmers thought nobody could ever supply as inexpensively as they could for domestic use. And then one last short comment. The Campbell Soup Co. which operates a beef processing plant in Argentina imports much of the beef used in Chunky Soups. That's just one example. This is replete. This article is replete with these kind of things. But what I am telling you is unless we have a two-tier system, and unless we accept the fact that while we're all free-traders, there is no free trade in the world today. If there's free trade, there wouldn't be more food coming in here and our food not being shipped abroad. Until we get up to speed on the times, then we're never going to be able to devise, it seems to me, a solution out of our problem.

Mr. Bereuter. Senator, would I have one opportunity to—I agree that the level of cutthroat competition we're facing today is just extraordinary, and if we don't see some results I, like Senator Exon, I guess, think that you ought to take a good hard look at a two-tier system and that the Bedell approach, you know, had some merit and it was worth looking at, worth giving farmers referendum on it, and I didn't know that, perhaps, we were focusing in on the same point but apparently we are.

Thanks very much.

Mr. Hall. Yes, thank you.

Do I understand then, Congressman, that you are in support of requiring the Secretary of Agriculture now to proceed with a second poll for a mandatory——

Mr. Bereuter. I'm not advising him. He's not sought my advice yet, but I certainly was in favor of an all out referendum, one that had an impact directly—not a prereferendum referendum, although I encourage people to vote in that strongly—that would have been provided for all farmers regardless of the commodity groups, and that's what the Bedell approach would have done in addition to the two-tier kind of approach that it seemed to have as a basic point.

Mr. Hall. Thank you very much.

Senator Zorinsky. Thank you, Larry.

Next, I would like to call on Bryce Neidig, the president of the Nebraska Farm Bureau.

It's good to see you, Bryce.

Mr. Neidig. Thank you, Senator.

Senator EXON. Bryce, we[illegible]

STATEMENT OF BRYCE NEIDIG, PRESIDENT, NEBRASKA FARM BUREAU FEDERATION

Mr. NEIDIG. Senator Zorinsky, Senator Exon, and Congressman Bereuter.

I will in the essence of time—copies have been distributed, I think, of my testimony, and I will not read the entire amount. You have that all before you.[1]

It is my understanding that the purpose of this hearing is to assess the impact of the 1985 farm bill. While that may appear to be a noble effort, in most areas it, quite frankly, is impossible to accurately assess the total impact at this time. Quite frankly, we are only beginning to see results or effects.

During any discussion of the 1985 farm bill it seems that the negative is always emphasized. I think we must recognize that there are always two sides to any issue. Now, even though I understand that the Farm Bureau is categorized as guilty by association, let me point out that it was not our bill and there are many areas of disagreement.

Nebraska had problems early on, no doubt, at least partially because of the time factor at the time that the farm bill was passed. Most of those—or not most, but a couple of those relating to alfalfa and sod buster provisions, and the underplanted acreage provisions, those have been resolved but at the time they were very real. In my opinion, one of the best features of the 1985 farm bill is the bonus export enhancement provision. And conversely at this same time, it also is a problem. Even though the 1985 farm bill authorizes the use of this type of export enhancement, the nonuse or misuse of this provision can be laid squarely at the feet of the administration. It just doesn't make sense to us to not vigorously pursue improving our export markets with this tool, and to not treat our largest customers the same as our smallest is difficult to comprehend.

I used to be in the custom anhydrous application business. The surest way to lose a customer was to offer a better price to a 40-acre job than you were giving to the 100-acre customer, and it seems that this, in essence, is what we are doing in international markets.

There are those that are concerned about the reaction of the EEC. I can speak with personal knowledge of the concern of the EEC. I had the privilege of being part of a trade mission to the Economic Community in May of this year. Let me assure you, the Common Market people are literally shaking in their boots over U.S. farm policy. I happen to think that just maybe that should tell us we are on the right track.

But obviously at this time, as I said earlier, the 1985 farm bill hasn't had time to have a great impact at this point in time. Although it will affect a number of States, the conservation reserve section of the 1985 farm bill can potentially affect Nebraska more than most. This program unquestionably got off to a bad start, but the fact remains clear that the conservation reserve does have the potential to very positively affect farmers' incomes and impact crop production while at the same time protect our natural resources.

---

[1] See p. 144 for the prepared statement of Mr. Neidig.

While being touted originally as a method to both reduce production and improve income, the whole herd daily buyout provision in the 1985 farm bill, in our opinion, will go down as one of the great mistakes. We should all be able to recall the devastating decline in the cattle markets when the buyout levels were first announced. And to say that that was simply over-reaction on the market's part doesn't add to the producer's check who had cattle on the market that day. And on top of that, we see further increases in milk output.

Sometimes even our hindsight gets blurred. We are quick to blame the 1985 farm bill for much of our upcoming storage problem and fail to recognize that most of the grain presently on hand got there before the 1985 farm bill was passed. Then we also tend to forget that we don't have weather, at least in Nebraska, so conducive to bumper corn yields like we have had for several years.

There is no question about the fact that much of rural America is going through really gut wrenching economic times, and we don't think that any one thing deserves all of the blame.

We hear that price is the answer. Price alone is not the answer, and I say "price alone" is not the answer. If we think that just price will get us out of this mess we're in, our memories once again are rather short. Price and cost have a natural and unavoidable attraction for each other. In other words, they always tend to come together. Was there any relationship between $3.50 corn and $3,000 an acre land? We think so.

We have just finished a nationwide wheat poll. Just about everyone is claiming victory. We question that any real solid conclusions can be drawn from the results. Nevertheless, the outcome gives some fuel to the fires of the mandatory production control advocates.

First, only partial control is unrealistic. Even though Farm Bureau is convinced that mandatory production controls won't work, the only way to proceed down that path is by total supply management. In other words, bushels sold, input costs controlled, and finally complete protectionist policies enacted.

Speaking of protectionist measures, according to the Journal of Commerce on August 20 of this year, Taiwan has threatened to stop the purchase of U.S. corn if U.S. corn growers persist in supporting such things as the recent textile bill. We must remember that Taiwan bought 2.8 million tons of corn in 1985 worth $400 million.

It is always interesting to note that those who are the most vocal in support of mandatory controls are oftentimes the same ones who are the most vocal about saving small town America. We contend that these two attitudes are not compatible.

We have had some minor program changes just recently to our 1986 crop and what to do with it. Let me point out that increasing the amount of storage payment may help a producer's income to a degree but does nothing to move a product into a market. Also, the same holds true by allowing grain to be temporarily placed under loan while being stored on the ground.

Also, it is our understanding that in Nebraska we have a potential problem due to the fact that under some conditions our Public Service Commission will not issue warehouse receipts for such grain.

All in all, while not offering any sort of panacea, I hope that I have helped make you aware of some of the good as well as the bad in the 1985 farm bill.

Senator ZORINSKY. Thank you, Bryce.

Senator Exon.

Senator EXON. Bryce, thank you very much for your excellent testimony and, also, thank you for coming in, as many others do to Washington, to give us your counsel and advice. That's very important. We're always glad to see you in there as we are all Nebraskans.

I agree with you that one of the highlights of the 1985 farm program, if there is one, is the land retirement programs, and I think that possibly in the future, as we go on down this road to try and work our way out of our difficulties, we're going to have to do something more in that area, to get land out of production.

Alan Strunk, the editor at McCook, NE, has come up with something that is being looked at. He calls it, I believe, reverse homesteading. In other words, he says that some of this land should be taken out of production on a semi-permanent basis possibly and converted to other use, at least some of our more fragile land, I guess, would be a fair way of putting that. I for a moment don't discount totally the market for our products overseas, but I think that the main fault of the 1985 farm program, to recant—or to refer to what I had said earlier, once again, is that it's a fallacy. We're not going to be able to produce our way out of this without breaking more farmers. I do not agree with your statement that mandatory controls will be further harmful to rural America. It's pretty hard to imagine, I think, rural America and the rural independent businessmen. We talk about farmers and ranchers all of the time. I just want to put in a word also for those mainstreet businessmen that are the friends and the relatives of the farmers and ranchers. They're suffering equally as bad. I believe firmly that if we get prices up, while not ignoring cost of production, that that's first. I think we keep saying, "Which comes first, the chicken or the egg?" I don't think there's any question for wanting to get prices up through mechanisms is the only way out of this.

Let me just, if I can, take a walk over to these charts. Now these charts that we have up here are produced under information given us by the Congressional Research Office when I asked them to do a study. To get basically at the point as to whether or not we are chasing the Don Quixote windmills, if you will, by feeling that we're going to export our way out of this thing.

Let me refer, first, to this chart way over here. The one on the other end is the most important one. This chart over here [indicating]—these are all metric tons—it shows U.S. corn production. You see what has happened to production, 95 up to 225 metric tons, and you see how it has gone up from 1960 up to 1985. This, of course, was PIK, and the only thing good PIK did is it did take some land out of production during that one period of time. What I'm saying is from 1960 to 1985, we've had an explosion in corn production.

And 1986, while it isn't known yet, is going to be right up into this area [indicating], down possibly slightly.

The next one we have here is the same chart with regard to wheat production. You see what has happened to that. Now here's the interesting thing, what is going on around the world today and how realistic is it that we're going to continue to talk about selling our way out of this? Here's China [indicating], again metric tons. Notice what has happened to wheat production in China. When most of us in this room were youngsters, they were starving to death over there. Look what is happening. There's some indication that today China is the second major exporter of corn in the international marketplace.

Also note the blue line here is the acres harvested, and you'll see that from 1960 to 1985, the blue line has remained basically constant while the production in China has gone on up. I'm ignoring major competitors such as Argentina and Brazil, and others. Look, here's Bangladesh—who would have thought that Bangladesh of all places would be a major wheat producer. Same chart again, 1960 to 1985, here's Bangladesh's wheat production. No, they aren't big in metric tons compared with the United States or Canada, but they are producing wheat and they are going to produce more. They have even improved by about 50 percent the number of acres that they have in wheat production.

China, corn production, same—almost identical chart with wheat on the other side. Essentially, no explosion in acres planted but a huge explosion in production. The question of course comes: What is going to happen when they start this column [indicating], when they start harvesting and planting more acres of wheat in China, which they have the capacity to do? But this is the main chart, this one right here [indicating], and this is the one that I think we should kind of focus on just a little bit. This is the percentage of U.S. corn and wheat exported from 1930 up to 1986 estimate. Well, you've seen, of course, that all during these times because of the efforts of your farmers and the Institute of Agriculture here at the University of Nebraska, we've had a dramatic increase in the production of corn and wheat. Now what is the average? Of all of these years, what is the average that we have exported of our corn and wheat?

Well, if you'll look at this line here you'll see it's around 20 percent. That's the average. It went clear up to 43 percent in 1980, and went on up above that, to about 50 percent in the years after that. It's estimated to drop to 18 percent when the 1986 results are in. What I am telling you then is that if you'll take an average of this, you'll see it's somewhat around 18 to 20 percent of all of our corn and wheat production that we in the United States have exported into the international marketplace. It was wonderful in here in the late 1970's and 1980's when we had $6 corn and $4 wheat but that was an aberration that I spoke of earlier.

What I'm saying is that in 1986 we're coming way down in the amount of wheat and corn that we have exported but, interestingly enough, we'll be down as bad as it is to about the average that we have exported for all of those years. What I'm saying, ladies and gentleman, is that unless we get together with some kind of an agreement with the major wheat and exporting countries, I guess we'll probably have to include Canada and Australia and the United States in that, until we do that, decide what is a legitimate share of the export market that the United States producer is entitled to, and the Australians and the Canadians, until we come to some kind of an agreement on that, it seems to me that the farmer is going to continue to pay the unfair price of producing more than he can sell at a profit. And that chart, I think, more than any other convinces me, Bryce, that this idea that we're going to export—if we're primarily going to work our way out of this by exporting it, all that I can say, I think we're going to do it over the dead bodies of the American farmer and the American rancher.

[Applause.]

Mr. NEIDIG. Senator, I didn't make the statement that we were going to export our way out of this. I made the statement that it was unfortunate we weren't using the Export Enhancement Program as was provided in the 1985 farm bill to its fullest degree.

Senator EXON. Well, I wasn't throwing this all on you.

What I'm trying to get to is that—generally, I have felt that the Farm Bureau has supported the 1985 farm bill. Has it not?

Mr. NEIDIG. We supported it because we thought it was the best we could have at the time allowed, yes, sir.

Senator EXON. You think some major changes are necessary?

Mr. NEIDIG. We think some changes are necessary.

Senator EXON. Thank you.

Senator ZORINSKY. Congressman Bereuter.

Mr. BEREUTER. Bryce, thank you very much for your testimony. I'll be brief, and I share your concern about the way the administration has used the bonus export enhancement provisions.

Before I get into that though, I want to thank you on the specific detail that you have given here on what you approve of and don't approve of, and the way things are moving and working.

I had in my office last year a delegation of Nigerian grain importers and millers. They're among our best customers, and they get almost all of their wheat and some of their other grains from us, but they're very unhappy with us because they don't qualify the way it's being administered by the administration. They said to me, "Why is it that the Moroccans and Algerians qualify? We're your good customers but we now get a rate that's less beneficial," and I don't have a good answer for that because they should qualify as all traditional customers do. That's the way we ought to move at this point, and that's the discretion we have given the administration, and I think it ought to be across the board until we get some changes.

Then about 2 weeks ago, or 3 weeks ago in the Trade Subcommittee of Foreign Affairs where we were looking at agricultural export issues, the back of the room was filled with Australian parliamentarians, and the headlines were with their lament. And I say, "Don't cry for the Australians because they have dramatically eaten up markets that were American markets, particularly as a result of the grain embargo in 1980. So I do agree with you in the criticism that you focus on the export enhancement provisions. It's the administration of it and I hope that everybody has a chance, for example, to see an OPED article recently in the Wall Street Journal written by one of my colleagues on this subject.

Bryce, thank you very much for your testimony. If you have anything that you want to react to, please do. I don't mean to dominate the discussion.

Thank you very much.

Senator ZORINSKY. Bryce, I also want to thank you for testifying and certainly agree with you on the misuse or almost unuse of the Export Bonus Program, it's certainly not being used in a business like manner. Until we cut the ties between foreign diplomacy and agricultural economics, we're going to continue to have that problem. That's why I think that we've got to get the State Department out of agriculture. We've got to get the Department of Defense out of agriculture and allow agriculture to be agriculture. Again, thank you very much for being here.

Mr. NEIDIG. Thank you.

Senator ZORINSKY. Next, I would like to call on Corky Jones, the national president of the American Agricultural Movement, and Bob Breckenridge, the State president.

Welcome, gentleman.

I might make a brief announcement at this point, since it's 11:15. We're not going to break for lunch. Those of you that are testifying can take off and come back. If we read your name off, you'll be next in line. If you are out having a sandwich or something, then you'll be next up when you do come back if you'll let one of our staff people know that you are back. We've got so many people to testify that I'm afraid if we took a lunch break we would lose some valuable time, so we will continue with the panels to alert those of you that are coming up.

Thank you, Corky and Bob. Do you want to proceed?

STATEMENT OF ROBERT BRECKENRIDGE, STATE PRESIDENT, AMERICAN AGRICULTURE MOVEMENT

Mr. BRECKENRIDGE. Good morning, Senators, Congressman. I am Bob Breckenridge, Nebraska president of the American Agriculture Movement. I would like to thank you for convening this hearing today, but more importantly I thank you for your longstanding support for higher net farm income for farmers.

This morning we are here to bring you, two deeply concerned Senators, the feelings of rural America, the grassroots, the people of the land, the people who you need to get near and who we are speaking for today.

For the last 2 years during the discussion, drafting and debate of the 1985 farm bill, and from now on, you will hear conflicting ideas on farm policy. That is because there is a difference in perspective, Senators. There is a difference between interests of rural America and the monied interests of corporate board rooms. There is a different interest between production agriculture and agribusiness conglomerates. There is a difference in interests between my neighbor who may lose his farm this year and Conagra who showed record net corporate profits this year. There is a difference between farm groups that work for higher prices for farmers, and farm groups that work for lower prices. Senators, there is a difference between grassroots farm policy organizations and farm organizations that front for agribusiness. The big problem is when these groups work to hurt farmers' interests, they hurt the Midwest and the whole United States.

Senators, 70 percent of the wheat farmers across this State agreed with something you and I both already knew. We need a change in farm policy and we need it now.

Senator Zorinsky, I would like to personally thank you for the wheat poll.

[Applause.]

This poll gave us another tool to show people that there is a broad consensus for mandatory production controls. it shows that farmers think that they can make a difference. In my country that is predominantly soybeans and feed grains, there was an overwhelming 83.4 percent yes vote on the wheat poll. Senators, it is time to act. It is time to put into place a broad based production control program on all commodities in surplus. It is no time to stay the course or to go slow. The farmers of my county cannot last much longer. Our industry, our region and our Nation is in great need of action now.

In conclusion, the course is clear. The time is now. Net farm income must be raised. Higher prices are the only logical answer.

Senator ZORINSKY. Thank you, Bob.

Corky, do you want to make your opening statement?

STATEMENT OF CORK JONES, NATIONAL PRESIDENT, AMERICAN AGRICULTURE MOVEMENT

Mr. JONES. Yes, I, too, want to start right off with thanking you, Senator Zorinsky, for bringing about the wheat poll and a referendum, and I know it came from many different organizations and many different people coming in to your office again, and again, and again because I can still remember the day that you said, "I don't know what they want. Every time the next guy comes in, it's different than what the last guy wanted." But from that point forward, the referendum did prove to all of us, and to all of the organizations and all of the farmers across the Nation that they are ready for a change, and they are ready to accept mandatory supply management that is designated out in the wheat referendum. We feel that it has been because to your efforts, and I thank you personally as well as AAM for doing this along with the cohorts and the staff that you've got.

Only in America can we listen, and only in America can we participate in the type of hearing and testimony that we have heard here today, and will continue to hear. Only in America can we have some people get up and say, "Here, I've handed you a drowning man a drink of water for the remedies," and that's exactly what some of the organizations, and that's exactly what he just heard the Farm Bureau—I firmly believe that if we're going to correct anything, we've got to absolutely know what the problems are and where they are coming from, and the Farm Bureau—the leader of this farm bill, although we've just heard testimony that that was not the case, they were there testifying in its behalf.

The only thing that they were opposed about in this 1985 farm bill that will go down in the history of the United States as being the most expensive, the most devastating, the most detrimental, and the most complicated piece of legislation ever to go down in the history of this country. They were the ones that promoted it. They were the ones that promoted it, and they promoted it only to the extent that it wasn't—and anything that they weren't for was that it was not a low enough price structure, not high enough. They continue to tell us we're going to have a trade war, a trade war if we price production. And yet, just these past couple of weeks, when we did offer subsidy to Russia at a lower price—lower price now, not higher—it nearly caused a trade war in all of our cohorts. Australia dumped grain on the Embassy in protest. Canada cried out in protest; Argentina cried out in protest and even made statements that they felt like they wouldn't even make a payment on our loan because prices that the United States set were too low, not because they were too high.

Mandatory supply management is a must, and when we all talk about mandatory, none of us exactly like to think mandatory, none of us like to act under it. But yet when I got in the car to drive from Brownville, NE, to Lincoln today, it was mandatory that that car be licensed. It was mandatory that I obeyed the traffic laws, right on up the line. We live in a mandatory world. And yet when it comes mandatory to the industry of agriculture, we all shutter and back away. Why?

I think what is out here today, what is out here and an absolute must, is to listen to the farmers. The farm rancher congress that is being formulated and has been for the past 2 months, and actually sponsored in great part by Willie Nelson and the farm aide to get the input, to get the input of every producer across this Nation, and that's what is being held today and has been for the past several weeks. Over 500 meetings across the Nation are being held to do exactly that, get the input of every producer. That will be finalized on September 11, 12, and 13 in St. Louis. It's the same type of concept that any political race enjoys and that is there will be absolutely every State will be voting for what their delegates want, and out of that will come one type of farm bill to Washington, DC, via the tractorcade that's going to be held September 14 here in Omaha, NE, which we invite you all to attend, a protest, a protest against the injustices, and Americans are speaking out. The farm bill has got to have a mandatory supply management with a price.

Any time we look at what has happened in the past, and if we want to look at something that failed, we're seeing what has failed. We've seen failing farm policies brought about by failing leadership of some congressional bodies. Anyone that was opposing a mandatory supply management with price, price on parity structures, should not be, in my opinion, or in the American Agriculture Movement's opinion, in a leadership position. That is the key, that is the key to the economy and the future of what this country was founded on. The working class of people believe and absolutely—the word escapes me, but it is just simple that the working class people absolutely must have a price for our products as well as the farmer. The type of farm bill that we have been living under is every bit as detrimental to the industry—of labor, industry as it is to the energy—or is to the industry of agriculture.

The taxpayers are on near revolt, and rightfully they should be because they are paying the burden. When we see headlines saying

"Huge Payments To Farmers" it's because the loan rate, which sets price worldwide, is too low and the deficiency payments are there.

We have not ever had a farm bill drafted and formulated by farmers. What we are living under today, the failing policies that we're living under today, have been drafted and formulated, and passed into law by huge corporations, grain companies, brokers, exporters, and the like, not the bill of the farmer. The mandatory supply management that they are asking today and showing up in the wheat referendum definitely is a start. The farmer is willing and ready to accept a cutback in production. The farmers and producers themselves, a cutback in production to get a price, and price, not volume, is definitely the answer. We have got to have price with the capability of having a profit.

And it does not matter, Congressman Doug Bereuter, if we go ahead and we process our raw materials and we package them, if we don't price it any better than what we have priced our products in raw material, we're still losers. We have got to have a price.

When we're talking about the domestic prices versus exports, the American Agriculture Movement has been in line for a one price system. The purchasers pay for the price whether it be foreign or domestic, or wherever. That purchaser pays the price, the price set by legislation through loan levels. We also must address imports into this country and the trade deficits. We can no longer continue to import dairy products, grains, and meats that are substandard, using chemicals and feed additives, that have been claimed to be detrimental and hazardous to the health of this country and to all consumers that have been absolutely claimed to be devastating to our health, and yet they're still continuing to use it overseas and importing it in here through no inspection type that curtails it at all. So when we look at where we are at today—and possibly, I may be a little bitter today because yesterday I started my day with the Federal land bank sitting on my door ready to foreclose on a farm. Two hours later a John Deere representative from the finance committee came and ready to repossess my combine that I could make a payment on in 30 days. This is America. This is going on across America because of failing policies brought about by failing leadership that do not direct attention toward how important the industry of agriculture is. And I'm proud that I have got two Senators in the State of Nebraska. I'm proud to be a Nebraskan, and I'm proud of those two Senators that have lead the charge for better price structures, for mandatory supply management, and that is going to be the answer.

Later in the day, to make my day complete, I attended the foreclosure of a farm sale; the first in Nemaha County, NE, by a sheriff of a good friend and a good farmer, and this is going on because of policies brought about by organizations not representing the industry, not representing the producers themselves, and by leaders not representing the future of the industry or agriculture, not the State of Nebraska, nor the future of America. They are there for the purpose and the continuation of a power hungry greedy few, it appears to us. I think we must educate the public, and we must educate the public on what our congressional bodies are doing. They need to be aware of what they are doing, not what they say they are doing. Mandatory supply management is the answer. We're 100 percent behind it, and it will be the only answer that's going to bring about the economy and recover the economy of this Nation. Labor needs it every bit as bad as the lending institutions, and right on down the line.

I have no prepared statements. That's a heartfelt statement, and I can tell you that I am speaking for every true producer, farm producer and rancher in the United States of America. I really feel that.

Thank you.

Senator ZORINSKY. Thank you, Corky.

Jim.

Senator EXON. Bob and Corky, all I can say is thank you. You speak from the heart, and I know that, I speak with you frequently. I said earlier that my friend Bryce was in frequently. No more frequently than Corky. If Bryce and Corky, and Vern Magnuson and the farmer-elected committeemen group sitting over there, Fred and Dale, you are the ones that come in the most, and we appreciate it.

I am sorry to hear of your personal misfortune.

Mr. JONES. Senator, that was not the reason I said that.

Senator EXON. I know.

Mr. JONES. I'm telling it because that's what is going on.

Senator EXON. That's happening over and over, and over again, and that's why I think it adds the emphasis to the critical needs that we have here now and that's one of the reasons we have this hearing out here, to get this input, to see if we can muster, if you will, the heat that's necessary to get something done.

On the good news side of all of this, when I talked to these different farm groups, the people that I have mentioned here, the people I talked with in Nebraska, all across this State, I guess the good news is that I see a coming together of a consensus. While there are differences among the farm organizations and, certainly, as Larry Hall said earlier, the Farmers Union people are in to see me, but not Larry as much as some of the rest of you, but I have a close association with all of you, the NFO and others, and I say the good news is that a consensus is developing that we've got to have a dramatic change to something, and it seems to me that that's the good sign if there is any one today.

Thank you for your help, your input and your advice, and the driving force that you have been in seeking a change.

Senator ZORINSKY. Doug.

Mr. BEREUTER. Mr. Breckenridge, thank you very much for your written testimony which you gave to us.

And I say to Corky, we must have a company processing food right here more locally, higher prices for the people supplying it. I think the reduction in transportation costs alone should help provide a little bit greater margin.

I want to commend you for the energy that you bring to your work and your leadership for your organizations. I think it's outstanding.

Senator ZORINSKY. Thank you, Doug, and likewise I certainly feel that you played a very important part in giving us information from the grassroots level of about farming in America. You also seem to have a radar antenna that goes up whenever anyone goes in session out there, and I appreciate that because that's what we are there for, so thank you very much for your input.

Bob.

Mr. BRECKENRIDGE. Senator Zorinsky, you asked earlier on from someone that testified if they had anything that they felt they could express to you that would be helpful.

Senator ZORINSKY. Right.

Mr. BRECKENRIDGE. I would like to repeat what was talked earlier about with Larry Hall. How do we get there? You asked that question.

I saw this summer in my farmers and my neighbors, and the discussion in all of the coffeeshops was about the wheat poll. Frankly, I was worried how that would turn out, especially when some groups, and even the U.S. Department of Agriculture lobbied heavily against that vote, but it brought farmers together. It made them think about what the problem is, what the solution is, and it gave them the opportunity to be involved in their own destiny. That, to me, is very important, and I would—as I said earlier, you and I both knew how that would come out. I would certainly like to see the referendum for all commodities take place. I now am very confident that I know how it would turn out and I think it's something that should happen. And that's what I mean by grassroots and I don't have to tell you, but that's—the grassroots, that's the way the farmers feel and, certainly, farmers should have an opportunity to speak out and be heard on these issues. And I thank you again for the wheat poll.

Senator ZORINSKY. Thank you.

Senator EXON. Let me add just one comment to that. My guesstimate was that we would probably have a 55 to 58 percent approval in Nebraska on that and my guesstimate was that we might have a great deal of difficulty getting anything over 50 percent nationwide, so I think the fact that we got 55 percent of those who did respond in favor of the poll has raised our hopes more than you can recognize. And the fact that you and others spread the word, and the farmers made up their own mind on this, at least gives us a chance to get something done. All that I'm telling you is that had we had a negative effect on that poll, I think it would have essentially dashed any chance of an early change in the administration's position, which I'm still hopeful for, and all but eliminate any chance of making any significant changes in 1987.

Thank you for your help.

Senator ZORINSKY. Next, I would like to call on Dan Hughes, the vice president of the Nebraska Wheat Board; Ron Stoddard, the executive director of the Nebraska Wheat Growers, and Ed Farr who is also on the Nebraska Wheat Board.

Thank you, gentlemen, and which one of you would like to start?

STATEMENT OF DAN HUGHES, VICE PRESIDENT, NEBRASKA WHEAT GROWERS ASSOCIATION

Mr. HUGHES. I'll start.

Senators Zorinsky and Exon, Congressman Bereuter, members of the committee, my name is Dan Hughes from Venango, NE. I am vice president of the Nebraska-Wyoming Wheat Growers Association.

Wheat producers across the United States are dying of a fatal disease called below the cost of production wheat prices. There are several reasons this epidemic is running rampant. The blame can be placed, in part, on governmental policies, international trade restrictions, outdated grain quality standards, the strong dollar in relation to world currencies, and the overproduction of agricultural commodities.

As you are aware, the Nebraska-Wyoming Wheat Growers Association has lead the charge the past 4 years on the development and refinement of a farmer-mandated supply management program. We are very supportive of S. 1051, which was introduced into the U.S. Senate on May 1, 1985, by Senators Zorinsky, Exon, and Harkin.

Wheat producers, not only across Nebraska, but across most of the wheat producing areas of the United States have been saying, "We can no longer tolerate wheat prices below the cost of production."

When analyzing the problems, one realizes there are two predominant factors which determine the price of an agricultural commodity.

First, supply and demand which relates into carryover stocks and, second, loan rates. Both of these factors can be effectively dealt with legislatively.

Currently the United States is suffering from an excess of 1.9 billion bushels of wheat. These surpluses hang over our markets, depressing our prices. The USDA recently announced that during the 1985–86 marketing year wheat producers in the United States produced 2.1 billion bushels of wheat. During the same period, total utilization, both domestic and export, was 2 billion bushels. What this tells us is that if no wheat were produced in the United States during the 1986–87 marketing year, we would have enough excess stocks to meet both our export and domestic needs.

A study prepared by Chase Econometrics concluded that wheat carryover stocks should be in the range of 800 million bushels in order to protect against a food shortage and allow cash prices of wheat to rise, allowing producers to realize a return on their investment.

It is apparent that voluntary programs will not reduce carryover stocks to an appropriate level. Therefore, the Nebraska-Wyoming Wheat Growers Association urges all congressional members here today to introduce legislation into the U.S. Congress as soon as possible which will establish a farmer-mandated supply management program at levels which will allow profitability.

It is no secret that the forces leading the opposition to a supply management program are those who benefit from purchasing commodities at low prices and selling at long-established levels, thus enjoying record profits. It has been mentioned many times that controlling production would cause tremendous hardship on area merchants and many would not be able to continue in business. I would like to point out that as of June 15, 1986, the average price of wheat in Nebraska was $2.36 a bushel, which represents only 35 percent of parity. In 1985, Nebraska produced 89,700,000 bushels of wheat. When you figure that production against the average cash price of $2.36 instead of the parity price, which is $6.72, Nebraska farmers and merchants were denied a potential income of over $391,000,000. And if you would figure wheat, corn, sorghum, soybeans, cattle, and hogs, Nebraska lost a potential of just under $7 billion during 1 marketing year.

I would suggest that regaining this lost income would be more beneficial in helping producers and area merchants stay in business than would continued low prices.

Recently, the USDA released results of the wheat poll which was held between June 25 and July 14. We appreciate Senator Zorinsky's efforts in getting the wheat poll language included in the 1985 farm bill.

Congress and the Reagan administration should take notice because we producers across the Nation spoke clearly and precisely. The message they conveyed was that we as wheat producers can no longer tolerate below-the-cost-of-production commodity prices.

The wheat poll was designed to allow producers the opportunity to express their opinion on current agricultural policies. However, it was administered in such a fashion as to detract from its credibility. This was done because of the administration's objections to supply control programs. The Secretary of Agriculture actively lobbied producers to cast a no vote in the poll.

It has always been my understanding that the Office of the Secretary of Agriculture, through the USDA, was established to make sure production agriculture's ideas were implemented by Government policy. However, during the past several administrations this role has been reversed to the point where the Secretary of Agriculture has been used to foist administration policies on production agriculture.

Secretary Lyng has denounced the results of the wheat poll, saying the vote was inconclusive because of the small number of ballots returned. Was it not part of the defeatist plan to mail out 1½ million ballots when the 1982 census of agriculture showed only 446,000 wheat farms? It is also interesting to note wheat producers with less than 40 acres were allowed to vote, when the law specified that only wheat producers who had planted at least 40 acres in one of the previous 5 years were eligible to vote. In Nebraska, 63,498 ballots were mailed and 18,423 were returned valid and tallied. The 1982 agriculture census shows only 20,182 Nebraska wheat producers. USDA indicated that in Nebraska only 29 percent of the ballots mailed were returned and tallied, and of those 69 percent voted in favor. However, when one uses current numbers, we find that 91 percent of Nebraska wheat producers responded to the wheat poll with 12,717 voting yes and 5,706 voting no.

The same scenario can also be related in nearly all wheat-producing States. Everyone's method of interpreting the figures may differ but the results are the same, farmers want an opportunity to farm for a profit.

The current direction of low-price, market-oriented farm policy cannot and will not work, and will only hasten the destruction of production agriculture. The Nebraska-Wyoming Wheat Growers Association urges Congress to quickly adhere to the wishes of the Nation's wheat producers and implement a supply management program which will allow profitability to return again to agriculture.

Thank you.

Senator EXON. Dan, thank you very much. Excellent statement.

I just wanted to say that were it not for the time and effort, and talent that the Nebraska Wheat Growers particularly put into explaining this, not only to the wheat growers of Nebraska but in surrounding States, we would have still probably carried in Nebraska but we would not have carried in some of those other States, and I think there was a big difference in that the high percentage that we got in Nebraska, thanks for the extensive mailings that you people did. It was well worthwhile.

Ron, you go ahead with your statement.

STATEMENT OF RON STODDARD, DIRECTOR, NEBRASKA-WYOMING WHEAT GROWERS ASSOCIATION

Mr. STODDARD. Senators Zorinsky, Exon, Congressman Bereuter, and members of the committee, my name is Ron Stoddard from Ogallala, NE, and I am the director of the Nebraska-Wyoming Wheat Growers Association.

I commend the U.S. Senate Committee on Agriculture, Nutrition, and Forestry for having the foresight to hold this important meeting in Lincoln, NE, today to give agricultural producers and local merchants the opportunity to share their views and concerns relative to today's depressed economy.

As you are well aware, the financial stability of America's heartland has been eroding steadily during the 1980's. It is of little coincidence that this economic decline has corresponded with the term of the Reagan administration.

The price of wheat has recently dropped into the $1.95 to $2 per bushel range in the midsection of the Hard Red Winter wheat production area. These prices are reflective of wheat prices during 1662, 1710, 1825 through 1831, 1865, and the late 1940's through 1963. The financial inequity comes from the tremendous increases in the cost of producing a bushel of wheat.

We are currently operating under the misguided concept of the Reagan administration, USDA, and the international grain companies who claim if we would only lower our price we would become competitive, dry up foreign expansion of crop acreages and then the mystical, magical world of exports would open up and our financial problems would be solved. It should be obvious by now that this theory is only beneficial to those who benefit from purchasing commodities at low prices and selling at long-established levels, thus enjoying record profits.

The Nebraska Wheat Growers Association has been stating for several years that price, except for a few isolated countries, is not the predominant determining factor by which importing countries determined from whom they will purchase their wheat needs. More important than price, as long as prices are within reasonable limits, are politics, governmental policy, grain quality and cleanliness, credit programs, and customer service. As you can see, the lowering of the commodity prices, which is not a viable option, is but one of the many factors with which we must deal in order to return profitability to agriculture.

Let's now look at one administrative policy which has a negative influence on agriculture.

Recently, Congressman David Obey, chairman of the Joint Economic Committee of the U.S. Congress, released a study analyzing the administration's management of the Latin American debt crisis. The study clearly shows that since 1982 the administration has pursued policies that rewarded the big American banks whose unwise lending policies helped precipitate the crisis, while penalizing American farmers and other American exporters.

The Latin American debt crisis surfaced in August 1982, when Mexico announced that it could not continue paying interest on its current debt obligations. By the end of 1982, it became clear that Mexico was only one of several Latin American nations that had borrowed more money from United States, European, and Japanese banks than their sluggish economies were capable of repaying on time.

These countries had a total debt of more than $318 billion, with yearly interest payments of $38.5 billion. Their trade revenues were only $8.5 billion, or $30 billion less than they needed to merely pay interest. They also needed an influx of tens of billions of additional dollars in order to repay their principal on time.

Eighty-five percent of Latin America's debt was owed to a relatively small number of international commercial banks. The other 15 percent of the debt came from the International Monetary Fund, the World Bank, and the U.S. Government.

During 1982, U.S. commercial banks held $83.9 billion, or more than 25 percent of Latin America's total debt. By the end of 1982, the U.S. commercial banking system's total loans in Latin American equaled 119 percent of the total capital for all major banks. A bank is declared insolvent and closed by U.S. bank regulators when its loan losses consume its capital. All nine money center banks would have failed if the Latin American debtors announced that they could repay only 40 percent of their outstanding debt. Even if they said that they would repay as much as 80 percent of the outstanding debt, the U.S. banks stood to lose more than 35 percent of their combined capital. This would seriously jeopardize their ability to continue functioning and extending credit to U.S. borrowers.

On February 4, 1983, Treasury Secretary Donald Regan outlined a four-pronged strategy at a U.S. Senate Committee hearing on Banking, Housing and Urban Affairs, which would ensure that Latin American debtors would continue servicing their debts.

One, debtor nations would generate a large portion of the dollars they need to pay interest by increasing their exports and cutting their imports.

Two, debtor nations would be given more time, in some cases as much as 14 additional years, in which to repay their maturing loans.

Three, commercial banks would make new loans so that debtor nations could avoid falling behind on their interest payments to the banks.

Four, the IMF, in addition to lending modest amounts of its own funds, would ensure that debtors were implementing essential economic reforms.

To date, the banks, the debtor nations and the IMF have all complied with this strategy. The results have been that the Latin American countries have reduced their imports from almost $100 billion in 1981 to approximately $60 billion today, and most have increased their volume of their exports. Since the early 1980's, three largest Latin American debtors, Argentina, Brazil, and Mexico, have increased the volume of their exports by 47 percent, 56 percent, and 62 percent respectively.

It was clear from the outset that the Third World debt problem posed a serious threat to the stability of the international financial system. The policies which were implemented, and thus far have averted a financial catastrophe, have permitted U.S. banks to maintain and even increase their profitability while seriously injuring the economic well-being of the agricultural and manufacturing sectors of the U.S. economy.

The financial crisis down on the farm is well documented. There are several ways in which the international debt crisis injures U.S. farmers. The most apparent is the decline in farm exports to Latin America. In 1981 the U.S. Department of Agriculture reported:

> Developing countries continue to be the major growth area for U.S. farm exports. In fiscal year 1981, U.S. exports to these areas increased 19 percent to reach $26.9 billion. Annual growth was sustained at over 20 percent between fiscal years 1977 and 1981. Over half of the U.S. wheat and soybean oil, and four-fifths of the U.S. rice exports went to developing countries in fiscal year 1981.

As a result of these sales to the Third World market, U.S. farm exports hit an all-time high in 1981, totaling $43.8 billion. Latin America's contribution to that export boom was considerable. It was the third largest market for U.S. farm exports, trailing only Western Europe and Japan. Between 1980 and 1981, the Latin American market absorbed almost one-half the total purchases of U.S. farm products totaled $6.9 billion or 15 percent of the total U.S. farm exports.

When the debt crisis emerged in August 1982, U.S. agricultural exports to Latin America totaled $4.5 billion, or a drop of one-third from 1981 levels. This drop in export volume came at the insistence of the Reagan administration, Treasury Secretary Donald Regan, and the IMF in order for the debtor nations to obtain dollars to pay interest on their debt to U.S. banks. The Joint Economic Committee report shows that the pressure to generate capital to repay American banks has forced many Latin American countries to reduce their purchases of American farm products and increase their exports of agricultural products which are already in surplus throughout the world. Since 1981, Argentina has more than doubled its wheat exports and Brazil has more than quadrupled its soybean exports. These huge increases in supply have added to the world agricultural surplus, which has helped drive down wheat prices by 10 percent, and world soybean prices by 19 percent.

To get a clearer picture of the importance of the Latin American market to U.S. farm prosperity, it is important to note that U.S. exports to Latin America exceeded exports to the Soviet Union by 240 percent, or $4 billion. By 1985, U.S. agricultural exports to

Latin America were $2.4 billion below their peak, while sales to the Soviet Union were only $500 million below their peak.

During 1985, the Latin American debt crisis was nearly five times as damaging to U.S. farmers as reduced sales to the Soviet Union.

The reduction of agricultural exports to Latin America is only one way in which the debt crisis is injurying U.S. farmers. In order to pay interest, debtor nations must increase their exports as well as reduce their imports. In other words, they must purchase less from the United States at the same time that they are producing more and competing more fiercely with U.S. products for a share of world export markets. This is the second way in which the debt crisis damages U.S. farm prosperity.

This additional production and competition cuts into U.S. sales to nondebtor nations and places downward pressure on virtually all major commodity prices. Falling commodity prices make it more difficult for U.S. farmers to continue servicing their debts and pushes many of them into bankruptcy. At the same time, falling commodity prices also make it more difficult for Latin American debtors to continue servicing their debt. And as their debt service difficulties mount, they are pressed to produce and export still more, which generates additional price declines and increases the financial strain on U.S. farmers. In the current international economic environment of high debt burdens and global overproduction, falling commodity prices are as much a consequence of the debt crisis as a cause of the debt crisis.

Another good example of adverse governmental policy is the recently announced $350 million World Bank loan to Argentina. The loan is intended to earn Argentina an additional $1 billion a year in foreign exchange by 1989. And how is Argentina going to attempt to earn that money? You guessed it, by increasing its agricultural production and exports. The United States through its sizable involvement in the World Bank is supporting the expansion of wheat exports of one of our principal competitors in the world market. The World Bank is loaning money to Argentina to expand that country's agriculture and protect the United States banking industry's interests at the expense of the United States farmer.

At a time when United States agriculture is going through a painful period of readjustment and insolvency is not the time for our Government to participate in this type of loan to Argentina.

As you can see, our current administration and the Treasury Department are hard at work protecting the well-being of American agricultural products. I think it is time that American agriculture stop being used as the springboard to prosperity for all other sectors of the U.S. economy. For those who feel we should be producing for the free market system, it should be clear that there is no such thing. Yes, that's right, not even in the United States. Any time our Presidential administration works to increase the competitive edge of our competition in order to benefit one sector of our society, which is banking, at the expense of another, which is agriculture, we do not have a free market system.

We need to all work together as agriculture to put pressure on the administration to treat agriculture as equitable as other industries.

The Nebraska-Wyoming Wheat Growers Association urges the U.S. Congress to correct all administrative and legislative policies which cause a hardship on America's agriculture.

Senator ZORINSKY. Thank you, Ron.

Ed.

STATEMENT OF ED FARR, MEMBER, NEBRASKA WHEAT BOARD

Mr. FARR. Senator Exon, Senator Zorinsky, and Congressman Bereuter.

My name is Ed Farr and I'm a farmer from Cedar Bluffs, NE. I'm also a member of the Nebraska Wheat Growers and, also, a member of the Nebraska Wheat Board.

I have some handouts here concerning the Wheat Board's intervention or participation in trying to get the grain standards cleaned up for export purposes. We have been in contact off and on with the FGIS and, of course, the exporting people tell us that the problem is that we as farmers are putting all of this dirt, gravel, and rocks, whatever you would care to name, into this grain.

Well, at wheat harvest time this summer, we did have a survey basically taken throughout the wheat producing area here in the State of Nebraska, and it was somewhere in the neighborhood of about 400 samples taken, and had those samples then verified. I might say that in this literature here you will find that at no place did we have a sample taken that wouldn't verify what we are trying to do with the grain standards. But it just seems like the FGIS—and I'm sure the people in the export business, like Cargill-Bunge and a few of the others that, I'm sure, you're quite aware of, would just as soon leave it as it is.

Our foreign buyers seem to think that if we could update our grain standards and take out all of this FM and stuff that we're shipping to them that they could upgrade the price anywhere from 10 to 20 cents a bushel, which would be quite a help to the producers here in this country, and I won't dwell on that much.

I've got a couple of other comments. I have no written testimony, gentlemen, but the Nebraska Wheat Board is on record in favor of mandatory production and controls.

I want to compliment Senator Zorinsky for having the wheat poll vote come about. I sometimes have questions in my mind due to the fact of the way the USDA operated the poll. You know, they say, "Well, 54 percent of the producers who voted in the poll were agreeable." Well, that's not really much of a spread. But I think in years past, when we had a Presidential election, if some man or some person running for President of the United States gets 54 percent of the vote, they consider that a landslide, I believe, as I have heard over the years.

I might share with you—and I'm sure you're aware of some of the results from that wheat poll. Taking the Midwestern part of the United States, what we consider the breadbasket of this country and where wheat is produced, these nine States produce 80 percent of the production of wheat. Colorado voted 54 percent; Kansas 60 percent; Minnesota, 76; Montana, 62; Nebraska, 70; North Dakota, 65; Oklahoma, 63; South Dakota, 66; and Texas, 75 percent.

It seems rather odd to me that when they talk about sending out 1-plus million, almost 2 million ballots, as I went over some of the names of States where ballots were sent out, three States that I didn't really—I didn't even realize they raised much wheat there. I think it was Ohio, Indiana, and Illinois. They sent out over 300,000 ballots in those three States. And another State down south, Alabama, sent out over 39,000 ballots. They only have 4,000 wheat farmers. I'm hard pressed to understand maybe some of the criteria for the way those ballots were sent out.

With that, gentlemen, I have very little more to say, other than, like I say, the Nebraska Wheat Board is on record of supporting mandatory controls.

I guess, you know, myself as a farmer through many years, I can remember when the administration said, "We've got to do this, this, and this. We've got to produce fence to fence. The world is going hungry, we've got to feed them." Well, we have always tried to get our operation to go along with that but for some reason today, it seems like, we must all be overfed because I'm running out of a place to put it. As I say, when I came in here, I'm a farmer. I'd like to say I'm a cash grain farmer but, you know, in about 1 or 2 more years I'm going to be an indebted farmer.

I would like to make one comment to Congressman Bereuter. I'm glad to hear what he said about 25 percent of the people—25 percent more of the people, I believe your comment, Congressman, in your district is in support of mandatory controls. I was glad to hear that.

I noticed in the notes further back—I believe it was August 21, the World-Herald—I'm sure you are aware of that newspaper—that wasn't exactly some of your comments, something about mandatory control would be devastating to the American farmer, agri-related businesses and hometown businesses on main street. But it won't hurt many more in my little town, we don't have any left.

Thank you, gentlemen.

Senator ZORINSKY. Thank you, Ed.

Going along with a comment you made, I would just like to say that there were about 365,000 ballots returned.

Mr. FARR. Yes, you are right, Senator.

Senator ZORINSKY. And the 1983 Yearbook of Agriculture put out by the U.S. Department of Agriculture said that there were 450,000 wheat farmers in the United States of America.

Mr. FARR. Yes, sir.

Senator ZORINSKY. So, according, to the USDA, if they're accurate at all, if there's 450,000 wheat farmers and 350,000 ballots were returned, that's certainly greater than 20-percent returned ballots.

Mr. FARR. Right.

Senator ZORINSKY. I think the key is what you said, is that far more ballots were sent out really than were necessary to poll legitimate wheat farmers, and I think that's where one of our problems came up. Then they wouldn't let us count them right in the ASCS offices. We asked them to provide return postage but they said they didn't want to do that. I think that could have even increased the percentage of returns.

Mr. Farr. I think, Senator, that the average farmer out in the country today—you know, we get many questionnaires which I'm sure, you're aware of from all different segments of agriculture, and you take one look at them and I'll be the first to admit that probably 50 percent of mine go in file 13. Like I say, the farmer will sit there and say, "Why should I spend another 22 cents to mail something back that isn't going to mean anything to me anyway?" But like you say, had they went along with your thinking and put a postage-paid envelope on there, it might have made a difference on the number that came back.

Senator Zorinsky. Thank you, gentlemen. Thank you for being here.

Mr. Bereuter. I'll be brief, Mr. Chairman.

Thank you very much for your testimony.

Ed, I'm very pleased you brought up the matter of grain quality standards.

On my comments in the World-Herald, they are accurately covered. I would have suggested it should have said $85 million in net income for Nebraska farmers.

The question, of course, is what kind of mandatory controls and what kind of supply management, and my comments, as you note in that World-Herald article, relate to a unilateral mandatory control for this country only with no coordination with our competitors.

You know, I'm very pleased that the wheat groups have come together with the other commodity groups working on this North American Export Grain Association and the Office of Technology Assessment is finally ready to deliver to Congress their recommendations on improving the quality of grain.

I hope you'll take a look at something that Cooper Evans and I have introduced to make some changes now. Most things could be done administratively, but I find it just outrageous and hard to comprehend that it is not illegal to intentionally insert foreign material in our grain, and that is happening. It is outrageous. It could be stopped immediately, and I just do not believe that's something that should be allowed to continue.

Our whole problem, it seems to me, Ed, though—and I want to say this to you because I think—well, I want your reaction but, also, I know what your national organization says in their agreement—is that the standards encourage the pollution or the addition of foreign material. There should be a flip-flop. There should be an incentive to giving people an incentive to deliver their best grain, and not to blend it and not to give us the disaster we had with soybeans lately with the People's Republic of China, and not to give the Canadians the excuse of delivering better material, so I hope you'll continue to push yours—I imagine you are—for this effort to come to some fruition as soon as possible.

Thank you for your comments.

Mr. Farr. You know, to go back to what you are saying, Congressman, it's a funny, you know, all price is basically based on, I guess, you would say No. 2. But if you deliver No. 1, you don't get a premium. But if you deliver No. 3, bang.

Mr. **Bereuter**. Right. And right now they're given encouragement to move it up just right up to the level and that's the wrong way to use the standards.

Mr. **Farr**. Well, the object of this was to basically—you know, your exporters and some of the other people were saying that we, as farmers, are dumping this stuff in the grain. Well, we hope that this will prove that what we set up for—where we think the standards ought to be out of nearly 300 samples taken this summer at wheat harvest time in the western and southwestern part of Nebraska will prove that those would have all passed the standards that we like to think ought to be put into effect.

Senator **Zorinsky**. Senator Exon.

Senator **Exon**. I will take just 1 minute.

Thank you, Dan, Ron, and Ed, for the excellent testimony. We appreciate it.

I noticed, Ron, you talked about the way they treat the banks in Mexico. It's very true. There's a lot of that foreign debt of the International Bank that is much more uncollectible than many farmers that are being closed out today, but the big continue to be served.

We had a repeat of the Continental Illinois situation in Oklahoma last week. Two banks went broke in Oklahoma, one following the other. One was a $600 million bank, the other was nearly a $3 billion bank. The FDIC closed up the $600 million bank; the $3 billion bank was so big that they couldn't afford to take care of it and, I think, basically that's what shows the reason that the farmer and rancher are getting run over.

Just to lighten the conversation a little, I, too, was amazed at the wheat poll and who got some of the ballots. The Republican administration, I think, has stolen a technique from us Democrats. For years the Republicans have been complaining that we have stolen elections in Cook County, IL, and we supposedly do that by having unqualified voters voting. The famous story, you know, about the wheat farmer that went back to Chicago after Jack Kennedy won the Presidency in 1960 and he didn't win it until Illinois came in, until Cook County finally swung legitimately those electoral votes to a Democratic candidate for President. A wheat farmer was in there on Thursday after the Tuesday election, and a little boy was crying by the curb, and this wheat farmer stopped to ask him what the matter was, and the kid sobbed and said, "My dad died."

The farmer said, "That's terrible. When did that happen?"

The kid said, "Four years ago."

The farmer said, "Good lands, hasn't your mother gotten over that?"

The youngster said, "Well, we had gotten over it but," he said, "Dad came home to vote the other day and didn't even drop out to say 'Hello.' "

Those are some of the things that went on in the wheat poll, I suggest.

Thank you very much.

Mr. **Bereuter**. Senator, I understand that's called voting the river precincts.

Senator **Exon**. That's right.

And when the Cook County vote comes in on the wheat poll, it's going to be 98 percent.

Senator **Zorinsky**. Thank you, gentlemen.

I would like to ask, in the essence of trying to complete this hearing today, that rather than read the entire statement that you have, if you have one, that it be entered into the record as if presented in its entirety and then you may summarize. I notice, we've had 11 witnesses testify and after 11 witnesses a lot is being said now that has already been said in previous statements very eloquently. So, if you could cut some of the statements down, we would appreciate it.

We have had 11 people testify. We have 27 left. We have taken 3½ hours with the first 11 witnesses. If we continue at their pace we will finish at 10 o'clock tonight. Your efforts in expediting this in some way, will be greatly appreciated.

With that, let me call Rod Swanson, the president, and Jack Moors, the executive director of the Nebraska Corn Growers to the table, please.

STATEMENT OF ROD SWANSON, PRESIDENT, NEBRASKA CORN GROWERS ASSOCIATION

Mr. **Swanson**. Senator Exon, Senator Zorinsky, Congressman Bereuter, and friends of agriculture, I am Rod Swanson from Overton, NE, a farmer in eastern Dawson County. I am the president of the Nebraska Corn Growers Association.

On December 23, 1985, President Reagan signed into law a 5-year farm bill called the Food Security Act of 1985.

In 1987 provisions of this law will be implemented by the administration. The Corn Growers Association will continue to work toward administrative decisions and necessary legislative initiatives which will provide basic income protection to corn farmers and marketing opportunities promoting the general profitability of corn farmers.

Moreover, the 1987 Corn Program should provide the following provisions for U.S. corn farmers.

I'll try to be brief on these and not go through everything.

One, we consider it a marketing loan, implementing a marketing loan in order to achieve a competitive level of corn prices in the international market without discriminating against domestic users of corn under this mechanism. Any participating producer in program compliance shall be eligible for a 9-month loan at $2.40 per bushel. If the price declines below the $2.40 loan rate, the State average farmgate price of corn for the first 5 months of the marketing year will be the level at which the producer will repay the loan, and will not be subject to any prevailing payment limitation to a producer.

Two, set-aside. In the event a marketing loan is not implemented, we support a 20-percent set-aside plus a 10-percent paid land diversion, at least a 10-percent paid land diversion at $1.50 per bushel rate.

Three, storage. Reinstitute the facility loan immediately.

Four, proven yield. Support the concept that the program yield will be the actual proven yield.

Five, target price. Support keeping the target price at least $3.03 for the life of the 1985 farm bill.

Six, corn program date. The provisions of the annual program for corn production should be announced on the legislatively mandated date of September 1 in order to allow for proper and effective planning by U.S. corn farmers in their individual production and marketing programs

Seven, grazing and harvesting of set-aside should be allowed only in cases of extreme drought.

Eight, program compliance. Program enrollment should be by irrevocable contract and provide a severe penalty for noncompliance.

Nine, compliance date. The certification deadline for determining final compliance in either a paid acreage diversion or reduced acreage program for the season should be on a State-wide basis and established no later than July 15.

Ten, CCC grain inventory. Current CCC inventory and subsequent inventory should be acquired under CCC under maturing farmer-owned reserve and will be, No. 1, additional Public Law 480 export programming; two, additional stocks for current and future export enhancement programs to offset the world grain export prices and to reflect the value of the U.S. dollar.

Eleven, storage payment equity. Due to the inequity of storage payments between farmers and commercial storage elevators, there should be legislation to equalize storage rates paid by CCC-owned grain whether it is held in commercial storage elevators or in CCC-approved on-farm storage facilities.

Twelve, CCC stock storage. Farmers should have the option of continuing to store grain after they forfeit a loan to the CCC, provided they have it in an approved farm storage.

Thirteen, an econometric study should be conducted immediately to determine the effect of various levels of ethanol consumption on the 1985 farm bill cost, other segments of agriculture, and the U.S. economy. Levels to be studied should be up to and including a 100-percent ethanol blended fuels program which could utilize 4 billion bushels of corn annually.

Fourteen, Federal or State lands. Federal or State lands should be required to participate in all conservation and set-aside programs. No additional Government-owned acres should be made tillable.

Fifteen, Nebraska ASCS is interrupting the rule of planting nonprogram crops on corn base acres. Nebraska ASCS states that we will lose corn base forcing program participants to plant maximum corn acres.

Sixteen, the administration should develop farm program application forms which are less complicated and expressed in layman terms to facilitate understanding and management decisionmaking. The application process should be simplified to the greatest extent possible.

On behalf of the Nebraska Corn Growers, I want to thank Senator Zorinsky and Senator Exon, and Congressman Bereuter for taking their time to come and hear our concerns. Thank you.

Senator ZORINSKY. Thank you, Rod.

Is Jack going to be here with you?

Mr. Swanson. Jack was here but I—I don't know if he is still here.

Senator Zorinsky. Congressman Bereuter.

Mr. Bereuter. Mr. Swanson, I wanted to just compliment you on the way you have laid out very specific recommendations. It really epitomizes what I think we need to have in the way of specific comments from you. Thank you for your effort.

Mr. Swanson. Thank you, Congressman.

Senator Zorinsky. Rod, as you probably are aware, in regards to point No. 11, a bill has been introduced to equalize the storage payments. Hopefully, we'll be able to push that before we go out.

Mr. Swanson. Yes. I commend you on your efforts on that, Senator.

Senator Zorinsky. I think that certainly would give some incentive to on-farm storage and take some pressure off of this upcoming glut that we're going to have to deal with of additional surpluses.

Rod, I want to thank you for being here and testifying. Mr. Kelly Holthus, you are next.

Mr. Bereuter. Holthus from York, NE.

Senator Zorinsky. Yes, Kelly Holthus, president of the Nebraska Bankers Association and Roy Dinsdale, a banker from Palmer, NE.

STATEMENT OF C.G. KELLY HOLTHUS, PRESIDENT, NEBRASKA BANKERS ASSOCIATION

Mr. Holthus. Thank you, Senator Zorinsky, Senator Exon, and Congressman Bereuter, for taking your time today to be here and conduct this hearing.[1]

As stated, I am president of the Nebraska Bankers Association. We represent 427 of the 432 commercial banks in Nebraska. As a trade association, we are very active in watching legislation both on a Federal and on a State level.

Before I get into some of the things I would like to discuss with you, I want to thank all of your staffs in Washington for the good reception we get from the people that work for you and from each one of you because when we do have a question, we call you, you respond. Or if we are in Washington, we really get the kind of answers we're looking for, and I think we are fortunate in Nebraska to have the kind of delegation in Washington that we do have, so I want to make that point first.

Senator Zorinsky. Thank you.

Mr. Holthus. I think our concerns are the same as everyone else that has testified here today, and that farmers, businessmen, bankers, we're all in this together. And what happens in agriculture is really what happens in Nebraska, so we do need to address these issues, and it is good to have this opportunity.

I just want to touch on a couple of items that have not been covered today because I do not want to be repetitious. I know what you are saying, Mr. Chairman, about the time, and we do not want you here until 10 o'clock tonight, so we'll make our comments very brief.

---

[1] See p. 145 for the prepared statement of Mr. Holthus.

I think we are in a farm crisis. Our feeling is that the 1985 farm bill has not helped the situation; that we still have a farm crisis. As bankers, we're getting ready to start preparing lines of credit for the 1987 farm year. If we're going to see a reduction in target prices, if we're going to see a larger set-aside or any type of changes in the restrictions or the laws that affect agriculture, it's going to be more and more difficult for our farmers to get financing, and I think that's the one point I want to stress on today is the negative legislation we see in regard to providing credit for agriculture. At a time when we really need to be doing everything possible to help our farmers, we continually see legislation that prohibits credit to farmers.

I'm talking about section 1324 of the farm bill which is a clear title legislation. This is to take effect now on December 24. We have talked to each one of you about this. We feel prenotification is not going to work. As you well know, Nebraska has an excellent system in AGNET. We need time to implement this. We need enabling legislation from the Nebraska Legislature. But on the Federal level, we do need an extension of time, and you're very cooperative in your efforts but if you don't get a chance to vote on it, I know there's nothing you can do for us. But this is a very important thing. We talk about all of the other negative legislation that we see, some on the State level, some on a Federal level, but it's all working to hinder credit to agriculture. We're very concerned about this.

One other item that's just a matter of rules, I believe, or it can be handled by the USDA, is the inability or the lack of desire of the Agriculture Department to allow us to take an assignment on any payments, PIK payments or any other type of government payments. We're getting to the situation where the cost of production is more than the loan price on some of our commodities. If we have a marginal borrower who does not have equity in land or equity in machinery, we need to be able to take an assignment of that government payment in order to advance credit so he can produce his crop for the year. The rules as they now stand do not allow for this, and we think this is something that should be brought to the attention of the USDA.

I think to summarize, this really doesn't appear to us to be the American way. The big losers, as we see it, are our most aggressive, our smartest, our most ambitious farmers are the ones that are really getting hurt.

In our respective banks, it appears that these are the people who are taking our loan losses, and the banks in Nebraska are taking substantial losses, and some of them are even going broke which is really a sad commentary. And it's not that the farmers aren't doing a good job. It appears that they are being hurt for doing a good job and, therefore, ultimately the aggressive ones end up not making it, and we think this is different than the way our country was founded, the way we've always operated. We've always been rewarded for hard work and doing a good job. At the present time that's not the case.

With those brief remarks, what I would like to do is ask Roy Dinsdale, another Nebraska banker, to comment from his view point.

Roy.

STATEMENT OF ROY DINSDALE

Mr. DINSDALE. I don't have any prepared remarks so I'll just speak briefly.

You've heard a lot about the production and the corn problem, and so forth. I'm also a farmer and a cattle feeder, as well as a banker, but there are many here who can probably testify better about that than I can, so I would like to talk to you a little about the banking business. We're in a unique position in the banking business. We get to see the cash flow on most of these people. Let me tell you, most of them have tightened their belt until it hurts. If the people in government had tightened their belt as much as these farmers, we would be in a lot better shape and we wouldn't have a $200 billion deficit. I mean, there's a lot of them, I don't know how they live on what they're living, but they are doing it anyhow. They are getting by. Most of them are really, really trying.

One thing we haven't addressed to much here this morning is what is happening to main street because there isn't anybody to lobby for them, but I can tell you, most of the main streets in these towns look pretty bad. I'm not totally surprised that maybe some of the small towns of 1,000 or less are looking tough but I think it's looking just as bad in Grand Island, Lexington, and Scottsbluff as it is anywhere else.

As an example, in Scottsbluff, the main block in town, by the end of the year the only building that will be occupied will be the bank. That's hard to believe right our there in the best part of Nebraska. That's a catastrophe for us.

I do think that the new tax bill is going to be some help because we have a little more level playing floor. If there were people in agriculture for the tax incentives, I think they're going to be gone. I compliment you for getting them out of the game. That will help us a little bit.

We're seeing some things happen to farmers that are outside of the farm program that I think are just a catastrophe. We see these people going around Nebraska and other States that say, "Hey, I've got contacts in Saudi Arabia" or something, "I can get you some money. I'll need a front end fee, give me $4,000 and I'll fight the banker," and so forth. We see some people that are being totally mislead. As of this date, I have seen dozens of those, and I have yet to see one of those people who ever produced a dime for anyone. That's a terrible thing, to take somebody who is in financial trouble, take a finder's fee from them and then get no results. I wish we could get something done about that.

Something that's getting totally out of hand, in my estimation, is our bankruptcy courts. These bankruptcy courts just hold these things in abeyance forever. We've got people that have been in bankruptcy court for 3 or 4 years, and I can say without any qualifications that I do not have one customer who went into bankruptcy court who didn't come out worse than he went in. The reason he went into bankruptcy court is because we've got an abundance of attorneys who don't have enough to do who have gone around and lead a lot of people into bankruptcy and they are the only ones who have gained from it. I think Kelly would back me up on that.

One more thing that I wish we could do, and I don't know whether we can do it in Nebraska, but we have got to get some liability on the part of attorneys who filed frivolous lawsuits. Other States have it, but we have not been able to do it in Nebraska. In the banking business, we're getting all kinds of frivolous lawsuits that have no merit. The people know they have no merit. They take up our time, their time, and do you know who eventually pays for that? The borrower. So with all of the other problems these borrowers have on their hands, we're fighting things like this clear title, we're fighting all of these dang frivolous lawsuits, we're in bankruptcy court. Our attorney fees have not gone up 10 percent, they have gone up thousands of percent in the last 2 or 3 years and I don't think it has produced a thing for anyone. I wish we could get something done about that.

I was riding into Lincoln the other day and I heard where the local, I think, telephone company said they needed an 8-percent return on their equity. I wish we in agriculture could just say, "Hey, we need 8 percent, give it to us." There was no argument on it. There was a small hearing. They got it. Boy, if I had 8 percent, I would be driving a dang sight better car than I am. We just are not able to do those things that those regulated people do and maybe we need a little more deregulation from them to get our costs down a little bit. We're losing bankers just as fast as we are losing farmers. I have one bank now where I need a president. I have interviewed three people. The first thing they say, "Is it in a ag area?" Obviously it is. "Scratch my name. I don't want any part of it." We're losing the heart out of Nebraska.

You've heard time and time again that the big farmer is getting along all right. I can swear to you that I have lost a heck of a lot more money on big farmers than I have on small ones. They are the guys who understood leverage, tried to prosper and the timing was wrong, and those people won't be back again. Whether we want to be small farmers or not, it looks like we're going to drift that way because agriculture just won't support much credit. I could just cry over the people that I am seeing leaving Lincoln—or leaving Nebraska, but nevertheless it is happening.

I heard a disturbing statistic the other night—and it's hard for me to believe but maybe it is right—60 million people in the United States do not eat meat. Now, I happen to believe you can't live if you don't eat meat but maybe you can. But there's a place that we don't need some help from the Government. We've got to pull ourselves up by our shoe straps. We've got to work on that. I'm working on it right now and I'll tell you a little about it. We're producing some cattle right now that have never had an antibiotic, they've never had any growth stimulant. We guarantee them that way. They are being test marketed in the Denver area, and people will buy that beef. We've got people kind of frightened from the regular meat in the meat counter, and if we can guarantee them this, they're going to buy it. I think it's going to be an interesting thing. Maybe we can do a few things like that to use up some of this grain and get people to eating some of our ag products that would help us a little bit. But as long as we've got this big production, that isn't going to be enough. And I've said for many years, we've fed them too well, too long, too cheap, and I don't know what in the heck we're going to do about it, and I don't envy you fellows trying to work on it, but I do thank you for coming to listen to us, and it's good to vent our problems a little bit, for Kelly and I, because we don't get to talk to too many about them. Thank you very much.

Senator ZORINSKY. Roy, thank you, and I thank Kelly for being here and presenting some articulate comments. While you're helping the cattle industry sell more beef, I would hope that you would be able to convince the stock growers and livestock feeders that clear title is a frivolous issue. It would make our job a lot easier.

Mr. DINSDALE. Well, I buy lots of corn, and I can tell you now, we've got a wonderful system if they'll just let it work.

Senator ZORINSKY. The State of Nebraska certainly is ahead in that area.

Mr. DINSDALE. Sure. If we follow it now, and we have, we buy thousands of cattle and lots of corn, we've never had to pay for anything twice, but we live up to the law.

Senator ZORINSKY. Well, as you know, 1 year ago I slowed that up, when we were doing the 1985 farm bill, so that we would have an opportunity to discuss it some more, and I assume we will still discuss it some more.

Mr. DINSDALE. Well, between that and the law we have on real estate in Nebraska, you're just going to drive banks out of the lending business or make it so cumbersome that——

Senator ZORINSKY. Let me ask you this question: How important—I feel it's important and I know some farmers do—but as a banker how important is income averaging for a farmer? I was very disappointed this was taken out in conference with the tax reform and we're already going to—some of my colleagues, including Jim—prepare some legislation to try to amend that back in there because we think it's important.

Mr. DINSDALE. Senator, probably right now it's not very important because, unfortunately, we've got a lot of people that aren't paying any taxes. But, hopefully, there will be some better days and they'd like to have this to go back to average on and maybe that won't be available, so it could be—I hate to let it forego.

Senator ZORINSKY. Yeah, it wouldn't have much of an impact on the budget right now but, as you point out, it's the only way a farmer has to recover from a couple of bad years.

Mr. DINSDALE. Well, you know, Nebraska looks perfect now. We've seen it look that bad.

Senator ZORINSKY. Yes.

Mr. DINSDALE. And if we can't average those a little, we've got a problem.

Mr. HOLTHUS. I think farming is different than any other business, and that's the reason why averaging is so important. They can't control their crops and the weather.

Senator ZORINSKY. Doug.

Mr. BEREUTER. Gentlemen, thank you for your testimony. Congressman Ed Jones of the House Agriculture Credit Subcommittee says he would like to get that extension so that States that can work out their own system might have an opportunity to do that, but he's looking for a Senate bill to come across so that he can put it on, so it is not Christmas treed in the House.

The Governor, of course, vetoed the effort this year or Nebraska would be on track. I hope that the agriculture groups and the financial institutions can come together. Here's my suggestion, if there's going to be a special session this year in the Nebraska Legislature, and I hear more about it, if you can come together, the two groups that have contested this issue, I would hope that you could encourage that being added to the call for a special session this year.

Second, your comments about meat. I know that coming up facing us is a ban of American beef exports to the European Community next year—it's already in place—unless we can assure that the meat is not grown with the use of hormones. And we may disagree. We do contest the value, we contest. We're willing to supply them with meat with no residual, but it is such an emotional issue in Europe that they tell us it's not going to be changed, so I would like to suggest, and get your reaction to the possibility of a new meat grade that also builds on what you're apparently trying to do, and that is one that assures no hormones in that particular qualification standard so that we could continue to export what little we now can get into Europe.

Mr. Dinsdale. Costwise, it's a step backwards, but I'm not going to be able to convince the whole world it's all right, the beef that we now—which I'm totally sure that it is, so let's go back and produce some of the old way and use up a little more corn. We're a little less efficient but that's the price the public——

Mr. Bereuter. Not change everything we do but at least have a new category for people that want to meet that need. Is that possible?

Mr. Dinsdale. Sure. But, as far as I'm concerned, I don't know as we need to keep grading.

Senator Zorinsky. Senator Exon.

Senator Exon. Gentlemen, I apologize for eating but I wanted to be here and at least I'm the only person in the room that's really doing something to help the farmers. [Laughter.]

I was interested in your comments. One question. First, Roy, thanks for putting that information in about your natural fed beef. I made a talk to the stock growers 3 or 4 years ago and it was the main theme I was talking about, trying to alert them to what the people want, the housewives want today. There's all of this information coming out of the bureaucracy about meat and cancer, and all of these dietary things, and some of the additives that you use supposedly put fat on the heifer but they don't want—people don't want fat on themselves. I really think, whether it's true or not, that's what the housewife wants to buy, and I think we have to take our hats off, basically, to the pork people who many years ago recognized that they wanted a lean animal and they produced a lean animal, and they're selling more pork. So I think what you are doing is a significant step in the right direction.

I have talked, for example, with Iowa Beef and others about having a box of beef coming out of their plants that says "all natural fed beef". They aren't going to worry about the increased price, if it is what they want to eat. A significant step in the right direction.

Interest rates. We've heard testimony earlier here today that while interest rates have come down dramatically, the interest rates charged to the farmers have not come down dramatically. What is the reason for that? I suspect the reason is that most of the agriculture banks are the ones that have been hit the hardest, and they simply cannot afford to make as much of a reduction in interest rates as you see happening in the cities where there are people not directly involved in agriculture. In other words, to put it another way, some of these banks are so strapped that they must try and get enough money back in to put the capital up where it belongs.

Is that one of the main reasons that we have not seen a drop in the average interest rates comparable with the significant drop that we have had in national interest rates?

Mr. DINSDALE. Well, I can answer for myself. Our loan volume is down about 40 percent. So when we lose one of those loans, we replace it with a Government bond or a municipal, or something like that, so that goes down. Our spread on funds just keeps going down all of the time, but the big factor is the one that you would guess, the significant increase in the provision for loan losses, not only the ones we're actually losing but the ones—that the regulators are making us put more in there, and then if you'll look at any published bank statement and see the nonaccrual loans, the other real estate that generate very little income, that's right. I think bankers have long since given up any idea of really making any money. They're just like everybody else, they're trying to survive and it's a long, tough fight. I can understand why somebody that's paying 11 or 12 and see the savings rate going down to 4½ or 5 doesn't like it. I don't agree either. If we didn't have any loan losses, Kelly and I could take 3 or 4 percent off our loan rates and go home smiling now and be a heck of a lot better off, but we——

Senator EXON. So, unfortunately, Roy, it's that vicious cycle——

Mr. DINSDALE. It sure is.

Senator EXON [continuing]. Where the people that are still in business, they way the system works and the way the regulators are regulating, it makes those who are trying to hang on that much—it makes their job that much tougher because they are paying a higher rate to make up for the losses you have accrued elsewhere, is that right?

Mr. DINSDALE. If I could get rid of my attorney and consulting fees, I could knock 1 percent off my loans right there, stop that fight. That would do that. I could just go all day on examples like that, what we could do, but those things are with us. Our loan volume is down 40 percent. I haven't laid off a loan officer because it's that much more work.

Senator EXON. Kelly and Roy, thank you very much. I appreciate it and I just want to say, Kelly, you know, and I want the audience to know, that it must have been a year and a half ago now, Roy came in with some people whom I have a great deal of confidence in, and spent some time with both Paul Volcker and Jim Baker, the Secretary of the Treasury, and while we have not accomplished near what we set out to do, I guess that we did, at least, alert them to a situation that I think they were pretty blind to until we laid it out.

Mr. DINSDALE. Well, it sure isn't getting any better. Thank you.

Mr. HOLTHUS. Senator, if I may comment on the interest rate thing. The other thing that is happening, in addition to what Roy was saying, the certificates that are running off now that we issued 36 months ago are at 10, 11 percent, so you have to look at that as being part of the problem, their cost of money.

Senator ZORINSKY. Mrs. Marge Borcher, president of the Nebraska Women Involved in Farm Economics and, Mrs. Norma Hall, president of the Agriculture Council of Nebraska.

STATEMENT OF MARGE BORCHER, PRESIDENT, NEBRASKA CHAPTER, WOMEN INVOLVED IN FARM ECONOMICS

Mrs. BORCHER. Senator Zorinsky, Senator Exon, and Congressman Bereuter, I am Marge Borcher, president of Nebraska WIFE, Women Involved in Farm Economics, and I would like to thank you all for coming to Lincoln today and for giving me the opportunity to appear before you.

I understand that the purpose of this hearing is to learn how the 1985 farm bill is affecting Nebraska's farmers in the summer of 1986. I wish I could say that we were all in tall clover but, believe me, that's not the case. Many of us suffered severe hardships this spring when advance deficiency payments were issued so late. Most farmers hurried and signed up for the program promptly in early March, just as soon as they could get in line and get in the ASCS office, hoping that early sign up would mean early payment. Not so. Many were counting on the advanced payments to pay operating expenses, mortgage payments, or last year's holdover fuel and electric bills. Planting time starts in early April in eastern Nebraska and early May in western Nebraska for such crops as oats, corn, sorghum, and spring barley and wheat. Those advance deficiency payment checks were never even written until after May 20. Farmers had to get money, if they could, on short-term, high-interest-rate loans in order to buy seed, fertilizer, and fuel. We had to pay interest on a short-term note in order to make a payment on a long-term note. Some did not receive their checks until after June 1. If you have an electric irrigation system, you have to pay for last year's energy use and a ratchet fee in order to turn your pump on by June 1 or be charged an additional startup fee, and many of us had to pay that startup fee.

I have even heard of some farmers that were foreclosed on because they got their payment too late to make their mortgage payment and were unable to borrow or refinance. Some farmers received their payments and promptly deposited them, only to be notified that the ASCS office has made a mistake and paid too much and so they were required to repay that money within 15 days or be charged interest on the overpayment. The whole manner in which the 1985 farm bill has been administered on the national, State and local levels has been a chamber of horrors or a comedy of errors, depending on your situation.

We had a bumper wheat crop in western Nebraska, so folks think we're getting rich on the deficiency payments on all that wheat. What most of the media and urban taxpayers don't realize is that that deficiency payment is only paid on the county average times your allotted acres, so there's a lot of wheat that will be sold at less than $2 a bushel. When it costs over $4 to produce it, you certainly cannot come out ahead selling it at $2. Of course, many think extra bushels per acre are a bonus and they certainly are. But custom combiners charge extra per acre to harvest and haul wheat that produces over 20 bushels to the acre and there are storage costs on those extra bushels. And the same situation holds true for corn and other grains.

Storage space for the 1986 crop is a real problem. CCC stocks from last year are still in the elevators and terminals. The 1986 crop will have to be dumped on the ground. Not only has the export picture for wheat and feed grains failed to improve, we have increased imports of all grains. From Canada alone, imports of wheat increased from 13,000 metric tons in 1984-85 to 84,000 metric tons in 1985-86. Why should we be importing wheat from Canada, Argentina, or Brazil when we are literally buried under surplus domestic stocks?

It seems that it's more important to ensure that Third World nations have income to pay the interest on their loans to the World Bank than to help the American farmer survive. The only answer is to put in a supply management program for all storable commodities with a price that will be profitable to the producer and issue each farmer a marketing certificate for his allotment. No grain could be sold into the domestic market without a certificate and there should be tariffs on all other commodities, including livestock. This would ensure that they wouldn't be imported at less than what it costs the American farmer to produce them.

The present farm program will destroy the rugged, free, and independent farm family and with it the small rural communities with their schools, churches, and small businesses. After every war, after every depression, after every national calamity and world disaster, America has rebuilt and after both world wars rebuilt the world and fed the world because America was founded on strong, resilient, productive farm families. Now we are a debtor nation, importing more commodities than we export. Will the day come when America is dependent on Argentina for beef; Canada for wheat and hogs; New Zealand for dairy products; and China for textiles because America's farmers have been forced off the land and it is overgrown with weeds and washed into the rivers and streams?

New national wealth can come from nowhere but the soil. We must stop selling this new wealth at less than half its worth. Who will pay the taxes to support our national defense and the welfare programs for the poor and unemployed? The farm crisis is a national crisis. Destroy farm families and you'll destroy America. Thank you.

Senator ZORINSKY. Thank you, Marge.

It has been brought to my attention that while the three of us up here can take shifts in leaving the panel, one important individual in the audience that can't is the court reporter who is transcribing the minutes of all of this meeting, so we'll take a 10-minute recess and then we will resume again with Norma.

[Recess.]

Senator ZORINSKY. We will go back into session and continue our testimony with Mrs. Norma Hall, president of the Agriculture Council of Nebraska.

Norma.

STATEMENT OF NORMA HALL, PRESIDENT, AGRICULTURE COUNCIL OF NEBRASKA

Mrs. HALL. Our organization, Agriculture Council of Nebraska, is made up of some 22 agriculture-related groups. While we represent a wide, diverse group, we share a common concern, the crisis that is taking place in rural America today. You have already heard testimony from some of the members of the council, and I am basically going to address some common concerns that we have discussed in our meetings for the Agriculture Council.

First of all, Senator Zorinsky, we applaud your efforts in introducing legislation to equalize CCC loan storage rates. As you know, a farmer receives 26.5 cents per bushel while commercial facilities receive 30 to 35 cents. We believe this inequity needs to be resolved.

We marvel at today's beauty out in the countryside and the abundance at this time of the year, yet beneath this mantle are the continuing fears and frustrations of thousands of farmers and ranchers who are hanging on from month to month and year to year.

We in agriculture haven't seen many positive changes since the cold days of January. Interest rates are down some and fuel prices have declined to help, but the real payoff for farmers, the marketplace, still presents a dismal picture. Corn is less than $2 a bushel, oats less than $1, and there's not much hope for beans. The same seems to be true for the other farmer products produced in this State. The price of hogs is the one bright spot in the picture since hog numbers are in short supply.

I have been told that visually to understand something, you remember it much better, so I brought you a visual today for you to take back to Washington.

On my way in from Elmwood this morning, I passed on the outside of Eagle NE, a small farming community, which is also a bedroom community for those who work in Lincoln. I went into the little local market and I purchased this box of corn flakes. I'm not concerned about how much work went into the box of corn flakes or what's left after it's put in the box, how that is used or utilized, but I'm just concerned with the price that I paid for it as a farmer. I paid $2.23. Well, yes, I could have come into Lincoln and probably gotten it for $1.98 or maybe $2.05 but this was in my small rural grocery store that has to survive.

I called my local co-op this morning and I was told that if I bought in a bushel of my corn from the bin I would receive $1.35. Now as a farmer, how am I supposed to survive if I want to eat corn flakes that have been produced, and has given other people jobs, to survive on the $1.35 that I receive from my product?

I'm not very good at mathematics but I think I can figure that out pretty fast, that I'm losing ground fast.

Deputy Secretary of Agriculture, Peter Myers, speaking in South Dakota in July, said that farmers who are good managers can make a reasonable income with the 1985 farm bill, and that it can work to get American markets back, if the bill isn't tinkered with in the next 5 years. He went on to say that the farm bill is working because members of the European Economic Community don't like it because it makes prices for American products competitive in world markets. Those are incredible statements to many farmers who have already decided they won't be around in another year or two unless some things get changed.

One thing that our politicians and administrators in Washington had better understand, that if the 1985 farm bill isn't overhauled, and soon, there probably won't be enough family farmers left in 5 years to care about. Oh, yes, someone still will be producing the food but it's not going to be the family farmer.

The cost of the farm program to even the level of prices which we now have is likely to create a national taxpayer backlash which will further erode the influence of agriculture in Congress.

We believe the problem of food imports needs to be assessed. Many American companies are importing foodstuffs. The consumer has no way of knowing the country of origin, insecticide used, or sanitary conditions under which it is processed. U.S. products have much more stringent requirements, which add to our cost of production and made foreign imports more profitable.

If family farm agriculture is to survive in America, this country's leaders need to realize the great importance of a farm policy program that will guarantee a cost of production plus a reasonable profit. That's a big order politically and otherwise but we must never give up that goal.

Thank you for permitting me to appear before you today on behalf of the agriculture of Nebraska. Nebraska's corn is tall but farmers are short on hope for a profit. May you continue your efforts in Washington to resolve the current farm legislation.

Senator ZORINSKY. Thank you, Norma.

Senator EXON. Mr. Chairman, thank you very much.

Marge and Norma, you are both old friends and you have been very dedicated in your tireless efforts, which you don't get paid for, to help the farmers. I listened very intently to your testimony, and I congratulate you on it. It looks to me like you're not going to be eating many corn flakes this year, Norma. What we've got to do, though, is look to the future and see what we can do because your visual demonstration there just points up what we know is a very difficult situation.

Each time that I think we have talked, we have gotten into, you know, not just what is happening to farmers and ranchers, and businessmen and bankers, and all of this, but it hasn't been mentioned here before this morning, but there is a terrible price that's being paid for the structure of our family structure in Nebraska. I have often referred to it, it seems to me, you know, outside of the obvious tragedies that we talk about, we're tearing away the very fabric of society of rural America, and I think we'll probably hear some testimony today about the hotline and those kind of things. I assure that the stress on the family structure, the basic fabric, is as bad as it was a year ago, or I hope it's not any worse than it was.

What is happening on the crisis hotlines and what's happening in these communities to their morale as they see this happening? It's pretty depressing, isn't it?

Mrs. BORCHER. Yes, it is. And, of course, so many of our young members in WIFE have had to go to work in order to put groceries on the table, and then their children get home from school and there's no next door neighbor, and so you have latchkey rural children with no one to call on if they need help. And, you know, there's always a chance of an accident, a severe accident, on a farm, and with no one nearby to call on, why, it makes it real bad.

Mrs. HALL. May I comment?

Of any of you, if you were in Nebraska yesterday, I guess one of the reasons I live in Nebraska, I thought, was one of the most beautiful days. I was hauling grain out of the grain bin and so had an opportunity while the truck was filling to walk out in the pasture and I looked over that farm and I tried to visualize within my own mind what it would be like if I lost that farm. And taking from what I have heard other people talk about, and I suppose God gives the strength we don't know that we possess, but I think it must be one of the most heartbreaking things to walk off of land that you have farmed for 23 years, and all of those memories, plus the monetary loss that you've suffered, to take with that and start again and be positive Americans after that tragedy.

Senator EXON. I just thought of the same thing yesterday. Last night, you know, I saw the latest televison pictures of the tragedies of the Frontier Airlines employees that have been laid off and what it meant to them. You know, it's terrible. But all too often we fail to recognize that when the farmer and his wife lose their farm, they also lose their home; everything goes, and it's one of the things I have used in Congress to explain to our colleagues what the situation is. In the cities Dad or Mom gets laid off from their job and that's a terrible thing for the family because their budget is kaput. But when a farm family loses, everything is gone. We'll keep trying. Thank you for your testimony.

Senator ZORINSKY. Doug.

Mr. BEREUTER. Thank you, Mr. Chairman.

Ladies, you have given us a very personal testimony and I want to thank you for it but, also, to be somewhat personal in a response to you. I understand your point, Mrs. Borcher, about a concern of the trends of traditional agricultural commodities coming into this country. I understand that perfectly, so what I'm going to say I don't want you to misconstrue.

I think that the newspaper article talking about our deficit in agricultural commodities the last 2 months is a little bit misleading because it doesn't emphasize value-added products, and I quickly did a little calculation. I don't want more Canadian wheat coming in by any means, but even taking this large increase that grain is the amount of grain from Canada, wheat, that can be stored in the Carleton Elevator, Carleton, NE, so we're talking probably about specialized wheat. But what is important is what ends up on the supermarket shelf. I think if Americans had an opportunity to choose between Danish pork and Hormel or Farmland pork, if it clearly said "Made in the USA," a lot of them would think twice, particularly if you and I, and everybody else helped educate them.

I thought about that cereal box, a great demonstration, and I thought also about Crete, NE, and what an impact that processed grain, enriched processed grain that went abroad had. Every farmer in a 100-mile radius of Crete got a little bit better price for their product. I went by those lines of trucks many times, sometimes they're over one-half mile long, and they're not just big semis, they're also individual farm trucks from Saline and York County, and they help people make a living down in Crete with 204 people employed. And you know 99 percent of the American children in this country get a deficient quality meal for breakfast as compared to what we were shipping out of there in a processed enriched commodity. It was grounded abroad. So our family started buying this and we started buying bulgur wheat, and my wife now makes breakfast food. It's efficient, it's tastier. It's far more nutritious. I look in shock at what that box costs every time I go buy it, and then if you get some sugar on top of it, in addition, you know, that adds another 25 percent to it. I just think there's some education to be done and you're helping to do it, but I also think it comes back to the food processing center. I recall this man out in the western part of the State not too far from you that's trying his experiment with producing——

Mrs. Hall. All Stars Cereal.

Mr. Bereuter. Right. He got some help from this food processing with packaging and so on and so forth, so I think there's a lot we can do to try to process the product more here and bring higher prices to farmers in the process, and probably all of our kids and us are going to eat better in the process, too.

Mrs. Borcher. Yes; WIFE has an educational program to support, you know, homegrown commodities like that here in Nebraska. Nebraska WIFE does.

Mr. Bereuter. I known you have, and you've had your grocery carts at county fairs helping to educate people for years.

Mrs. Borcher. Yes; they don't realize how many of their groceries are paper products and dogfood. Of course, dogfood uses meat.

Mr. Bereuter. Produced in Crete also, by the way.

Senator Zorinsky. Thank you, ladies, and keep up the good work. We need you.

Senator Exon. Ed, let me just amplify on that point.

Referring back, you know, what we're talking about here is a case in point again to this article, "Looking Abroad to Fill Our Bellies at Bargain Prices," two paragraphs at the start of the article. Every morning 18-wheelers gear up and grind into the supermarkets at Rockville Pike just north of the Capitol. Aluminum doors clatter open, clerks scurry inside, a dazzling array of food begins to move from the trailer to the shelves. It's a ritual repeated at supermarkets all over America and one that has not changed much in the last decade.

What has changed, what has changed in the origin of the food being unloaded? Almost unnoticed in the national anxiety over the rising imports of auto, steel, textiles, electronic equipment is the steadily increasing amount of foreign food consumed directly by Americans. That's one of the things that we've fallen asleep on as we worry about automobile imports from Japan.

Mrs. Borcher. Well, as I said, I think it's a defense issue. Are we going to come to the point where we depend on foreign countries to feed our people? And when they get angry with us, or we go to war with them, then we won't, you know, have access to that. The same way with oil——

Senator Exon. Just like we are with oil.

Mrs. Borcher [continuing]. We're devastated in western Nebraska. Our oil wells have kept my husband and I in farming and that has dropped by two-thirds. We used to get around $1,500, now we get less than $500 a month. Thank goodness my last child graduated from the University of Nebraska last spring or he wouldn't be going this fall because it's the oil check that put him through college.

Senator Exon. And, unfortunately, most of our farmers don't have the oil checks.

Mrs. Borcher. Yes; I know.

Senator Zorinsky. Thank you very much.

Tim Wrage, the national president, and John Dittrich, the State president of the Farm Crisis Committee.

STATEMENT OF TIM L. WRAGE, PRESIDENT, FARM CRISIS COMMITTEE

Mr. Wrage. Senator Zorinsky, Senator Exon, Congressman Bereuter, thanks for the opportunity to speak before you, and I commend you for coming to Nebraska to find out what impact this fiasco has had on our farmers.[1]

The current farm bill, of course, was designed to reopen those old markets that we used to have and to gain us some new markets. I remember back in early 1985, then Secretary of Agriculture John Block stated that the price of corn needed to be right around $2 a bushel and we would hit market clearing levels, and we would just move everything clean out. Well, the new crop bid for corn at the local elevator right now is about $1.25. But the farmer is asking the same question today that he was asking in early 1985 and that's, how low do prices have to go to get rid of this corn? But there's a new question in there now and that is, how low does it have to stay there and for how long does it have to stay there?

President Reagan recently boasted in the State of Illinois about how he had spent more money on farmers than anyone else. I'm under the impression that this was supposed to give us feeling of self-compassion from the part of the President. I think this debacle should give us all a lesson on how not to spend money.

Mr. Chairman, you're a businessman. You and I both know that the quantity of money spent is not in direct correlation to the quality of the money being spent. If this farm bill is going to cost us nearly $37 billion, the American Government could have given every farmer $18,500 and we wouldn't have had to plant a damn thing. We probably would have been much better off.

As a businessman in the fertilizer business and also in the grain business, I thank the Federal Government for the programs that they have given us in the past because my grain bin sales have been excellent this fall. I can live very well with that. But what the Food Security Act of 1985 has given us is $1.25 corn, $4.50 beans, 85 cent oats and $2 wheat, and a broken economy in middle America.

---

[1] See p. 146 for the prepared statement of Mr. Wrage.

Our small towns, we see one single business after another closing, and most of our little towns are made up of retired farmers. Our older people don't have the confidence in the bank, they don't know whether their money is safe any more. They're having difficulty finding places to shop. Our real estate taxes in the farming economy aren't even equivalent to what we're getting for the crop. This, in turn, is going to affect our school system, our fire departments, our other services. As this stressful situation happens, I'm afraid that the State legislature is going to start coming up with types of laws that are going to be bad for Nebraska in the future.

What effect has this farm bill had on Nebraska? Well, in Emerson, we can take Ervin and Stan, Bill and Joe, and Ray, and Steve, and Don, and about five others and they know what effect the Farm Security Act has had because they're not going to farm in 1987. And everyone of those people that I listed, they come from the same town and they are good farmers but not one of them bought high-priced land in the seventies, not one of them went to Florida in the wintertime, not one of them overspent on machinery, nor did they have any other excessive habits. Their only crime was that they could not produce at the prices that the Food Security Act of 1985 has created.

Thank you.

Senator ZORINSKY. Thank you, Tim.

John Dittrich.

STATEMENT OF JOHN M. DITTRICH, STATE COORDINATOR, FARM CRISIS COMMITTEE

Mr. DITTRICH. Thank you, Senator Zorinsky, Senator Exon, and Congressman Bereuter for this opportunity to testify.

You've asked for some specifics on the effects of the farm bill, and that is what my testimony mainly deals with. I'm going to be quite blunt and quite specific about the effects of what this bill has.

Former Secretary John Block and President Reagan said that with the signing of the 1985 Food Security Act we had turned the corner to farm prosperity. This statement reminds me of a similar statement attributed to then President Herbert Hoover just before the Great Depression.

What has come around the corner is the most disastrous, illogical, idiotic farm legislation this country has ever seen. Unfortunately, the explanation of this disaster is all in the numbers. The Members of Congress that supported this bill seem to be unable to add 2 plus 2.

I would like to submit an example of what this bill does to a 600-acre corn and soybean farm in eastern Nebraska.

As many realize in our area, we've only been able to maintain as good a state of depression as we have had with these low farm prices by benefiting from 2 years of record yields. Corn yields have averaged 20 to 40 bushels per acre above ASCS county average yields and soybean yields have also been well above normal. My analysis shows how much less income can be expected in 1986 compared to 1985 with the same yields. On this farm, a 300-acre corn base is assumed with 300 acres planted to soybeans and a 600-acre farm.

CORN ACRES—ASCS COUNTY AVERAGE (PROGRAM) YIELD 116 BUSHELS/ACRE

	Old program	1985 Food Security Act
Planted acres	270	240
Actual yield	146 bushels/acre	146 bushels/acre
Actual county loan rate	$2.50	$1.79
Total deficiency payment, program yield only	.48/bushel	1.06/bushel
Loan income	(270 × 2.50 × 146)	(240 × 1.79 × 146)
Equals	$98,550	$62,721
Gross deficiency income	(270 × .48 × 116)	(240 × 1.06 × 116)
Equals	$15,033	$29,510
Total gross income before expenses	$113,583	$92,231

Assuming variable cash expenses for irrigated corn at $160 per acre and costs of maintaining idle acres at $15 an acre, expenses under the new farm bill would fall $4,300 due to the increased set-aside just on variable cash expenses. However, due to the sharply lower loan rate, Gramm-Rudman, the fact that deficiency payments are paid only on county average yields, and the increased unpaid set-aside, the bottom line is that on corn acres the net return over variable cash expenses declines by $17,002 under the 1985 Food Security Act.

As for soybeans, I assume the soybean loan rate will be dropped the full 5 percent allowed at the Secretary's discretion, plus an additional 4.3 percent Gramm-Rudman cut.

Soybean acres	Old program	1985 Food Security Act
Planted acres	300	300
Actual yield	35 bushels/acre	35 bushels/acre
Actual county loan rate	$4.87	$4.41
Gross income before	(300 × 4.87 × 35)	(300 × 4.41 × 35)
Expenses equals	$51,135	$46,305

The bottom line is that on soybean acres, return over variable cash input costs declines $4,830 in 1986.

In summary, on a 600-acre farm, net return over variable cash input expenses will decline a total of $21,832 under the new farm bill. This means $21,000 less for that farm to pay land rent, to meet debt payments, or to meet family living expenses. My analysis does not take into account the fact that approximately $10,000 of the 1986 deficiency income does not come until October 1987, 1 year after the 1986 harvest.

I also presented the best of all possible situations, that is, the farmer has storage debt free for his new crop. That's not a common occurrence. If the farmer does not have this storage, and chooses not to pile up corn on the ground, because he is liable if it rots, even if he obtains the loan, he must take the cash price. New crop cash bids at our local elevator are $1.21 per bushel for corn, and

$4.09 for soybeans. If forced to take these prices, even if in the program, that 600-acre farm will return $49,865 less in 1986 than it did in 1985. Obviously in 1985 the average farmer did not have excess profits to dispose of.

But what about exports? Won't we all get rich off increased exports from this farm bill?

In the 1983-84 marketing year we exported 1.875 billion bushels of corn. If under this farm bill we increased corn exports 30 percent in 1986, we would export 2.43 billion bushels of corn. Assuming an average export price approximating the national average loan rate, we would lose $310 million in gross export sales with the increased volume due to the sharply lower export prices. If the program succeeds we lose.

1.875 billion bushels × 2.55 average '85 loan rate=4.78 billion dollars in gross export sales of corn.

2.43 billion bushels × 1.84 average '86 loan rate=4.47 billion dollars in gross export sales of corn.

Of course, in reality, our farm export volume has dropped since the passage of the 1985 farm bill. This means the agricultural trade deficit, which is measured in dollars, not bushels, has grown rapidly worse.

For anyone who thinks the feed prices this year will help the livestock industry, I would like to quote Secretary Lyng's statements to the American Meat Institute's 1986 conference. Secretary Lyng said that with grain prices 25 percent lower due to the 1985 farm bill, red meat production will increase in coming years. Secretary Lyng said that recent statistics show a decrease in beef and swine levels. However, he said this situation will not prevail because the trend in past years has been producers will increase production to use lower cost grain. Of course what Secretary Lyng means is livestock prices will decline as supply increases.

This wonderful farm bill, which was originally estimated to cost $52 billion over 3 years, is now estimated to cost up to $35 billion in 1986 alone.

To summarize, we have a farm bill that raises the Federal deficit, worsens the trade deficit, and will make 1985 look like the golden year of agriculture.

Farmers did not write this farm bill, farmers did not ask for it, and do not want it. But now they face a congressionally caused disaster this fall, the final blow. They must hear almost daily about how fat they're getting at the Federal hog trough, which is supposedly helping farmers with $35 billion this year.

I cannot adequately express to you the growing level of frustration, anger, and disgust in the country aimed at this farm bill. These same emotions are also being directed toward those so-called Representatives in Congress, along with a handful of farm group leaders who supported this fiasco.

Senator Zorinsky and Senator Exon, I commend you for your support of supply management in raising farm prices and, Senator Zorinsky, for your support of the wheat referendum which is a powerful weapon in the hands of obtaining those things. I realize that you did not support this farm bill.

Thank you.

Senator Zorinsky. Thank you.

Senator Exon, do you have any comments?

Senator EXON. Gentlemen, very telling testimony. I know both of you well, and we've worked together, and I want to thank you, as I have others, for coming in to Washington when you used to be able to afford to come, but your voice is still heard there and I listen to it. I thought your testimony was outstanding.

John, your statistics were tremendously interesting, and it's good to see somebody that has the ability to sit down and figure that out. The bottom line of your proposition is that if this farm bill works any better in the future than it has in the past, God help us. I mean, that's about what you're saying.

A personal note, Tim, you know, we have great experience. Do you remember when Sander and Senator Levin were up in your country and they were with us? Carl Levin is a U.S. Senator from Detroit, MI, and his brother Sander Levin is a Congressman from Detroit, MI, and they did this on their own. They wanted to come out and see this, and I spent some time with them up in north-central Nebraska, and they really had a very meaningful experience as a result of that trip. Carl talked to me, and I said I thought I would see you out here, and he said to give you the best regards and thank you for your hospitality. I would simply say that that has paid off. I don't believe we've had a single farm issue that we haven't had Carl Levin's vote and support on since he was up there which shows that we can have this exchange of people who live in the cities who normally would not expect to vote for and with us on the Farm Program. When they see what is going on, they're just as good supporters as those of us who have been in the position.

Thank you for being here.

Senator ZORINSKY. Congressman Bereuter.

Mr. BEREUTER. Thank you very much for your testimony. I want to compliment you on the way that you conducted yourself and the impact that you had in Washington, DC, on your routine visits there for a period of time. I know that you probably had pangs of disappointment, maybe more than that, from time to time, but I think that you were among the most effective people to make your point of view, and the farm bill is different and parts of it are better because you were there.

I recall hearing someone say that as soon as a Member from Congress arrives in the House or Senate some old sage from a rural State will tell him or her, "Vote against any farm bill that passes, and vote for anyone that fails and you'll be reelected forever." Now that is not my approach. My approach is to try to work to get the very best one we possibly can.

I recall sitting for at least two titles as a conferee in what seemed like an interminable conference and I watched Senator Zorinsky there, who must have had absolutely steel pants, because he was there for all of it and for all of the titles, and it was a compromise bill that moved out of there, one that moved in 1985 instead of waiting for a less pleasant fiscal climate in 1986, and one that gave farmers an opportunity to at least know what to talk about when they went to financial institutions or PCA's. I think that is what the legislative process is about, you coming there, everybody else coming trying to have an impact on your Senators and Congressmen. I think your delegation understands the importance of you coming there and making your contributions. I have major disappointments on the floor. The Stangeland-Bedell amendments are two of them that I think you may have been in agreement with, too, but ultimately the responsible Member of Congress, I think, has to make a choice: Is it better to have this now or to have nothing? And that was my decision and one that I stand by.

I hope that your very specific suggestions here in detail can be shared around, and I'm going to do that—for my part do that.

I want to thank you for taking the effort to look at one individual farm because I think that makes an impact.

Thanks, gentlemen.

Senator Zorinsky. I would like to join in thanking you for your testimony. Although many people may feel this is overly emotional, emotion is what makes a point back in Washington, and that's reality and it's testimony that comes from the heart, not from a textbook. You people have certainly shown that you can translate the true feeling of what happens on the farm to the bureaucracy in Washington, DC. You did make a difference. Thank you for being here.

I would like to now call Steve Hallaron, the State vice president of the National Farmers Organization and, Mr. Robert Smith of the Nebraska Grange.

(No response.)

All right, Jack Fisher of the Nebraska Livestock Feeders and Richard Lackaff, the president of the Nebraska Stock Growers, please come forward also.

Steve, do you want to start off with your testimony?

STATEMENT OF STEVE HALLARON, VICE PRESIDENT, NEBRASKA CHAPTER, NATIONAL FARMERS ORGANIZATION

Mr. Hallaron. Thank you, Senator Zorinsky, Senator Exon, and Congressman Bereuter.

I will not read from my prepared script to the pleasure of, I'm sure, everyone here.

I will try to be brief. My wife says that being brief and being short aren't the same things.

NFO would like to go on record to begin with—and this has something to do with the press that agriculture receives in respect to the budget that is given to the farm program—we would like to see a change in accounting procedures with the Commodity Credit Corporation. Currently, all loans that are paid are paid back plus interest and are put into the general treasury and not the Commodity Credit Corporation. The Commodity Credit Corporation could, we feel, become a self-sustaining bureaucracy which is something that's very rare in Washington.

We would also like to go on record in favor of, as has been mentioned here before, a 2-tier system, an example of which could be—since an average of 66 percent of the production in this country is consumed domestically and consumed, I might add, by the consumer who can most economically afford it in the world, and who by recent surveys imposed has indicated that they would be more than willing to pay a par value for that food, a par value or a parity value if, for example, we had a 2-tier pricing structure in which the first tier used domestically would be 90 percent on parity. The second tier, for example—an example might be, for export, would be given, say, 55 percent of parity. Now to show you how ludicrous figures can be with, for example, 66 percent of our production used domestically and the other third exports, let us say we price that 66 percent at 100 percent of parity to the domestic consumer. If we were to give that other third of our production away that we export, literally give it away, use up all of the volume, gentlemen, we would—farmers would be much better off in respect to their prices. We would have 66 percent of parity, not less than 50 percent of parity. So it's a little bit ludicrous, I think that we're so concerned about less than one-third of our production that's exported. No other industry allows its exports, if they have a majority of what they produced consumed domestically, they will not allow their exports to drag down the price of what they sell domestically. Agriculture is an exception to this rule. We're also an exception—also an exception to the use of the word "inventory". I've heard it time and time again today, surplus. We have surplus. What are we going to do with all of this grain? We've got to get rid of it. We get rid of garbage, gentlemen, we don't get rid of something that has inherent, intrinsic value such as our agricultural production.

An inventory is something that every industry has as part of their business. They consider it an asset, not a liability. As Marge points out, it should be considered a strategic asset, something that this country could not do without in the event of a major world crisis, political crisis.

In respect to supply and management, NFO would like to go on record in favor of supply management. We are not entirely confident, though, that the same Federal Government that fails to balance its national budget yearly is capable of supplying—or managing the supply of our production.

On the other hand, to use a common economist's phrase, I have some U.S. statistics that indicate that the Federal Government is quite adapt at managing our supply. This is from the USDA foreign agriculture circular, World Grain Situation and Outlook, as of February 1985. It's a bit dated, but it shows from the years 1960-61 to 1984-85, the beginning stocks for those years, the production for those years, the total use, the imports, and the ending stocks which become the next year's beginning stocks. The last column indicates the percentage—the total use as a percentage of total production. Over the 25-year period of time, gentlemen, we have used 100.6 percent of what we're produced. Now this is supply management. We started with a carryover of beginning stock in 1960-61 of 105.6 million metric tons, and every year we have a carryover, and that's effectively used to manage the supply versus the demand. Getting back to other industries, I can't think of any other industry that would not get its next merger or almost any asset it has to have that kind of a record of using 100 percent of what it produces over a 25-year average—over 100 percent.

Something that's in the current farm bill that I would like to make mention of is generic certificates. Since we're not going to name names, since I don't know who it was specifically in the USDA that came up with it, but whoever the innocuous character is, I wish he would lose his job. Generic certificates are a very effective way—again it gets back to supply and management—a very effective way for the Government to put grain back into the pipeline when it's not really there. It's almost voodoo.

Secretary Lyng came up with an additional 10 percent advance deficiency payments and he used the excuse that it was for the farmers in the Southeastern part of the country that were suffering from droughts. I think it's almost a billion dollars worth of advance deficiency payments. They received about $75 million worth. The purpose of it, I believe, was to put grain into the very thin pipeline. If that pipeline were left to be its own, we might have seen a little bit of bullish factor in the markets. But as a result of adding generic certificates in the marketplace, it depressed the markets.

That, gentlemen, basically is all I have. If there are any questions, I would be glad to receive them.

Senator ZORINSKY. Thank you, Steve.

Now I would like to have Bob Smith make his opening statement.

VOICE. I don't believe Bob is here.

Senator ZORINSKY. OK, Jack Fisher.

STATEMENT OF JACK FISHER, PRESIDENT, NEBRASKA LIVESTOCK FEEDERS ASSOCIATION

Mr. FISHER. Senator Zorinsky, Senator Exon, and Congressman Bereuter, I am glad to have you here today and listen to this.[1]

Now my testimony is coming from the nonsubsidized sector of agriculture. I represent the Nebraska Livestock Feeders Association, and we appreciate this opportunity.

I'll touch the dairy buy-out program first. It was a disaster to the beef industry, and when you have a disaster in the beef industry it affects all agriculture again. My main concern here is that next year and the year following, don't let the dairy people buy their way in or coerce their way in, or talk you people into coming up with another dairy herd buy-out program. I mean, the feeder segment of the industry, the National Cattlemen's Association, we can't stand another herd buy-out program. We spent $113,000 this past summer just getting the USDA back on the right track and that will crack our treasury in another year.

Now, clear title legislation. Well, we heard from our banking friends that they have to have it. They can't live without it. Well, the shoe is on the other foot now. We've carried their burden for I don't know how many years. We are totally against any extension, that 2-year extension they are relobbying for back in Congress. We are against that in the cattle industry.

My question there is—and I would appreciate an answer from one of you three, if you could come up with one—Why should ag people act as financial watchdogs for bankers? Now I'll bring that back up again when I conclude my testimony.

I'll drop down to the beef checkoff program, beef promotion, and research order that you helped us get through last year in legislation—this year. We really appreciate that. We're going to do our doggonedist to make it work. We intend to start collecting that dollar a head in November to promote our own product. And while I mention promoting our own product, we do now have individual 12-ounce items of beef on grocery store shelves in Cincinnati, Columbus, and Detroit on a test market basis, being produced right here in Nebraska down at Hastings. That's our meat processing plant. They tell us—the research people down there—that last month that it's going over very well in the big cities back East.

---

[1] See p. 147 for the prepared statement of Mr. Fisher.

I would request most humbly that you and your representatives stay out of the light meat business. We can't tolerate the U.S. Government—I hate to use the word "interference" but I'll use the word "help"—we don't need any U.S. Government help in the light meat business. We will market our light meat without any help from the Government is what I'm saying, be it light generic, light noncaloric, light this, light that. We have about a dozen different varieties. It's selling good in the big cities. It's an eyecatcher on the dislay shelf. Let's leave it alone. It's a growing business.

On mandatory production controls, if I join my friend and neighbor Corky Jones in print and public today, or in favor of that, I would be tarred and feathered tomorrow from my outfit. We'll probably get to live with it in the near future. I can see it coming. I think it's the only answer. But I can't come out in support of it because it jacks up the raw cost of the product I used to feed and make a fat steer, and I represent people who feed cattle for a living.

I will just say one thing on that production control. Bear in mind that the livestock industry in the United States utilizes about two-thirds of the feed grains that are produced for domestic sales in the United States, so don't crank us up too high in the air on production costs.

I'll just conclude my testimony right there.

You've heard a lot of hot wind today, sir.

Senator ZORINSKY. I appreciate your comments because I've heard both ways from people in your industry that high-priced corn means high-priced cattle, and that's good. It's better than low-priced corn and low-priced cattle, but I do know what you're saying because you're using a commodity to produce a commodity whereas a commodity that is directly for sale to another party is a different ballgame.

Mr. FISHER. Well, when I buy high-priced corn, I buy low-priced feeder calves and I'm sitting right beside my friend who raises feeder calves, so I can't go along with that.

Senator ZORINSKY. Thank you very much.

Dick Lackaff.

STATEMENT OF RICHARD LACKAFF, PRESIDENT, NEBRASKA STOCK GROWERS ASSOCIATION

Mr. LACKAFF. Thank you, Senator Zorinsky, Senator Exon, and Congressman Bereuter.

I am Richard Lackaff, president of the Nebraska Stock Growers.

I have with me Roy Lilley, the executive vice president of our organization.

I am going to read my statement as quickly as I can. I think you will find that it's brief enough that it will fit in your timeframe.

I am a rancher in the Bassett area and am currently president of the Nebraska Stock Growers Association. Our family owns and operates a cow-calf-yearling ranch which is typical of many of our members. Our association also represents a good many cattle feeders and stocker operations.

The beef cattle industry only started taking an interest in general farm legislation in the past few years. I now serve on the National Cattlemen's Association Ag Policy Committee and it has become one of that group's most active committees. We have never asked for nor received direct marketing subsidies of any kind. I see little likelihood that we consider asking for such programs in the future.

Our interest in farm legislation has risen because of the severe adverse consequences to the beef cattle industry of both the dairy programs and the PIK Program. We are now very aware that legislation designed to help one segment of agriculture can seriously damage another. We would observe that the problems arising from the PIK Program possibly did more damage to the entire rural economy than they did specifically to the cattle industry. The dairy programs, however, very directly affected the beef cattle business. Since the dairy and PIK Programs are now accomplished facts, I will not dwell on them, even though we are still suffering the adverse market impact of the whole herd dairy buy-out.

The portions of the 1985 farm bill that capture the most public attention and have the greatest impact on the agricultural economy are those that deal with feed grains and wheat. Our interest in wheat primarily relates to the fact that at certain price levels it competes with feed grains and affects their availability and price. Specific items in the farm bill addressed by our organization and the National Cattlemen's Association included the provisions for grazing setaside or diverted acres in the wheat and feed grain sections, and we feel real strongly about that. Most of our members are operating without any other Government help in any way on privately owned deeded land and we feel it is unappropriate to allow grazing on any acreage for which a person is receiving something of value from the Federal Government in return for not growing a particular crop or complete retirement of the land. We have had no problem with opening up these acres for haying or grazing under declared emergency situations, even though our own Nebraska Sandhill ranchers had little assistance during last year's devastating drought. And that was the western part of the State. Our understanding of the bill as now written is that the Secretary of Agriculture will have discretionary authority on these matters in some cases and the State ASC office in others. We will make our position known at both levels.

Looking beyond the immediate specific concerns of cattlemen, we would like to address the larger issue outlined in the call for this hearing. What will be the effect of the 1985 farm bill on Nebraska's economy? Most people agree that the farm bill is greatly dependent on increased foreign sales of wheat and feed grains if it is to be effective. Recognizing that this will take several years, deficiency payments will continue and it is hoped the underlying world price will eventually rise to a level that will sustain typical farm operations without Government payments. Unfortunately, export demand has not increased and there is concern that the world price may remain so low that we will either break our farmers or the U.S. Treasury. It worries us that so much dependence is placed on world market prices over which we have so little control.

On the other hand, there is growing interest in mandated production controls as suggested in the just completed poll of wheat growers. We would have to suggest that legislated high prices tied to absolute production controls might have no better chance of working over the long term than the current program. Both concepts give lip service to maintaining the family farm but neither hold out much hope for the smaller operators. The 1985 program leads to growing more and more for less and less per unit, which means large scale operations. The acreage control program with guaranteed high prices would lead to the capitalization of the right to produce a particular crop into the base property. The small farmer would surely come out second best in the bidding war that ensured unless we licensed only the current farmers the right to continue producing the corp. In other words, we don't see a happy ending to either the current farm bill or the alternatives that have surfaced since its passage.

In order to end on a less negative note, we would like to suggest that there is a possible long-range solution that is market oriented and better for our farms and ranches. We must face up to the fact that there is now surplus production capacity for wheat and feed grains worldwide and give up the dream of exporting our way to prosperity with crops at least. We export valuable top soil with every bushel of grain while our diversified livestock production returns nutrients to the soil and we still have a competitive advantage worldwide in livestock feeding. The same amount of effort expended in developing the market for value added livestock for sale to countries that can afford them that is now spent trying to build markets for our grain might yield surprising results.

The immediate problem with this suggestion just offered is the tremendous surpluses of wheat and feed grain now in storage. As they are used up for livestock feed, we will oversupply the market with red meat; however, in spite of all good intentions, and probably our industry's protestations, it is likely these surpluses will end up being used as livestock and poultry feed. After that wreck is over, we had better start producing for the marketplace, the largest segment of which is the domestic livestock industry. If that happens, land now used for grain production will go back to grass and we will discover the significant fact that as we convert from grain production to grass production without the heavy hand of Government we will produce less total red meat.

In closing, no segment of our population more strongly supports moving to a domestic free market concept than cattle people. The concept of the free world market is a myth. After standing on the sidelines watching all of these years, cattle people are fully aware that we are far from a free market and getting there will be painful for all of us. We will help all we can in the process, but we will no longer tolerate programs that pit one segment of our ag economy against another.

We certainly appreciate you people being here and the opportunity to present our testimony before you.

If I might add one thing, testimony, as we directed ours, is specifically to the farm bill but a little of the current tax bill is worded into it and some other things, and income averaging has been mentioned, and we consider that a very important tool. Agriculture can surely use that.

Thank you.

Senator ZORINSKY. Thank you, Dick.

Roy, would you care to say anything?

Mr. DINSDALE. Just join in on the rebuttal if there is one.

Senator ZORINSKY. Senator Exon.

Senator EXON. Jack, thank you for your testimony. It was very interesting.

Jack and Dick, maybe you can answer the question: What has happened to the export versus import of beef in the United States?

I know there are all kinds of beef, finished beef and cutter grade beef and so forth. What has been happening the last few years? Have you felt the intense competition from foreign producers of beef that our grain producers have felt?

Mr. FISHER. Beef imports are running, approximately, 10 percent total consumption, according to the USDA figures, and we could do without any of it. We need no imports of beef in this country.

Senator EXON. What was it? I mean, has it——

Mr. FISHER. Well, it's hard to give you a dollar——

Senator EXON. I referred on my chart to the fact that, you know, we're exporting it. Is there any historical basis? Was it zero at one time?

Mr. FISHER. I expect it was during pilgrim time, but I don't know when it started either.

Senator EXON. Has the import of different grades of beef been—it's up to 10 percent now, and has it been constant at that level for some time or is it increasing?

Mr. FISHER. No, we haven't figured the quotas for several years. It's primarily hamburger beef that comes in the country but it runs a range clear up to imported Danish hams, and when there's a canned Danish ham setting in the grocery store down here, it's hurting that T-bone in the counter next door to it, and we could do without a pound of imported meat.

Mr. LACKAFF. The traditional trigger level is, approximately, 13 percent or not quite, and we haven't reached that for several years. There was a time when——

Senator EXON. You haven't reached that, right?

Mr. LACKAFF. No. And there was a time when we were there. But Australia has had a drought and there has been some other worldwide factors.

We're now at a little less than a month's production and that's significant in any industry.

Senator EXON. Why have you not had the competition for imports in—well, of course, No. 1, as you know, one of the tragedies in beef today is that consumption is down dramatically and so, I suppose, maybe they haven't felt that there is a market here for beef.

What problems are you having with regard to beef produced in Mexico? Are their rating standards on their processing down there equal to ours? Has that been a problem?

Mr. FISHER. Well, practically everything that comes across the Mexican border is ground up anyhow or put into soup.

Senator EXON. I see.

Mr. FISHER. So it's a leaner, tougher type of meat. It's nongrain fed.

Senator EXON. It's stew beef, huh?

Mr. FISHER. It's stew beef, but we don't need it though.

Senator EXON. I was in Canada on a fishing trip last week and when we got into Saskatoon to stay overnight there was—this was pork, I believe, rather than beef, but there was some Canadian on there saying that he had these new clients, and they were advertising, and they have supermarkets all over Los Angeles that were going to take their pork, and they were going to be competitive with pork in the United States, and had thoughts about going into beef production. I guess I don't quite understand why the Canadians with their standard of living and wage rates, and health standards quite comparable with ours, how they feel they can compete in the finished product market in the United States. How do they do that?

Mr. FISHER. They compete very easily. They operate, approximately, equal to us on production costs and it varies back and forth.

Now this spring we had quite a bit of finished—or fat cattle coming in here, right in Nebraska even, being slaughtered, and at the present time processed pork can cross the United States-Canadian border without any tariff imposed on it. Live pork, there's a tariff imposed on live pork at the present time, but their processed pork is very competitive to us in price. They are happy with our prices down here.

Senator EXON. Oh, they're happy about that.

Mr. FISHER. It's not a great big problem. This spring it got out of hand a little bit when the Canadian dollar and the United States dollar got a little far apart. At that time, it was pretty profitable for them, but it was a small percentage factor. It's a pretty cheap price to pay for that free border up there.

Senator EXON. I have an article here that I'm reading from. It says Cassle & Cook, a Honolulu based multinational has interest in fresh food production in Chile, Dominican Republic, and Burger King, a division of Pillsbury, produces 6 million pounds of beef in Costa Rica under contract with Central American ranchers. Enough to supply 2 percent of its hamburger needs in the United States.

Are you anticipating that we are going to see increasing amounts of beef—I'm talking about beef now—coming into the United States through our companies who are in fast food business? Are they going to be going more and more to cheaper beef down there and bring it in here? What do they do? Do they generally mix that beef with our better grade beef?

Mr. FISHER. It's mixed. Like in the hamburger, business, Campbell's soup, their Chunky Beef Soup, that meat is coming out of Costa Rica also. And no, I can't blame them from going down there. If they can buy the product cheaper and put it together, you can't fault those people for that. The Government's policy is cheap food, and has been for years. Until the U.S. Government's intervention puts a stop to that nonsense, we're going to get hung for it in the business industry.

Senator EXON. Thank you for your testimony.

Mr. LACKAFF. If I could add to that. Of course, that isn't restricted to the beef industry, you know. That's the fruit, the produce. We're having teriffic competition, especially from Mexico and Central America on a lot of our fresh produce, and beef, and they can—well, they can produce it cheaper and bring it back. That's just the way it is.

Senator EXON. Yeah, that's the way it is except in January, I was with six other Senators in the Far East, and we were in South Korea, Japan, and Hong Kong. It was vividly brought home to me what is going on when we visited a Mattel toy factory plant in Hong Kong, and we asked the question: What is the difference between the hourly wage rates between your plants here and those in the United States. Well, they said, "We don't use 'plants' any more in the United States. We only have one left and that's in California, and we make big toys there."

"But to answer your question, $9 an hour in California, and our plants here in Hong Kong, South Korea, and Formosa, about $1.50 an hour. But in our new People's Republic of China plant, which opened up in the last 6 months, 25 cents an hour."

I think the moral of that story is that we talk a great deal about productivity but we're going to have to have a heck of a lot of productivity to make up for the difference between $9 and 25 cents an hour, and I don't imagine that people who work for 25 cents an hour buy a whole lot of beef.

Thank you.

Senator ZORINSKY. Thank you.

Congressman Bereuter.

Mr. BEREUTER. Thanks, gentleman, for your testimony. It was all really very, very excellent.

Mr. Lackaff, you have tried to look ahead and I'm just particularly pleased with the job you did here. I want to commend you on that.

Jack, I took this down: "Stay out of the light meat business," and I put three exclamation points behind it, and that sounds like very good advice to me. I'm going to put that on the wall.

You know, I have one person in my Washington office that comes from a cattle feeder's family who helps me. I have one who comes from a stock grower's family who helps me, and those two gentleman and I were really just absolutely shocked at the deal that the National Meat—Livestock Feeders, Stock Growers—the deal that was cut between dairymen and Tony Corello and your representatives. We couldn't figure that out before the House Agriculture Committee. We have responsibility to look behind that. But any time you disagree with what your national representatives are doing—and I know it's hard to keep up in those fast-paced kind of changes there, but get on the telephone and tell us you want a Nebraska input that's different than the national. We're aware that there are some clear differences of opinion on that issue and we want to know yours when they do occur.

I guess that's all I have to say. Thank you very much for your testimony.

Mr. FISHER. May I address that?

Mr. BEREUTER. Yes.

Mr. FISHER. We're rookies at this business of pulling strings in Washington, or getting our word heard; however, we're not near as green as we were a year ago. We are improving back there. Our track record is getting better.

Mr. BEREUTER. That's what the pluralistic system is all about.

Mr. FISHER. Who to talk to, and so on and so forth.

Mr. BEREUTER. Thanks.

Senator ZORINSKY. Thank you, Jack, and thank you, Dick, Roy, and Steve.

Now I would like to call John Sullivan, a board member of Mid-America Dairymen. I'm glad I didn't make you a part of the previous panel.

Senator EXON. Are you alone, John?

Mr. SULLIVAN. I'm all alone.

Senator ZORINSKY. Go ahead.

STATEMENT OF JOHN SULLIVAN, MEMBER, BOARD OF DIRECTORS, MID-AMERICA DAIRYMEN, INC.

Mr. SULLIVAN. Senator Zornisky, Senator Exon, and Congressman Bereuter, I am John Sullivan, a dairy farmer from Superior, NE. I also serve on the board of directors of Mid-America Dairymen, the largest marketer of milk within Nebraska.[1]

A point I would like to make is to urge policymakers to consider the long-term, sometimes indirect effects of agricultural policy decisions. Policies that reduce farm income can have catastrophic effects on the economy, especially in rural areas. The Food Security Act of 1985 lowered prices of most agriculture products and contains provisions that could continue to lower prices in future years. These lower prices reduce farm income which force large numbers of farmers out of business. The number of farms in Nebraska has already decreased 12 percent since 1980. Rural communities are being hit hard. With the farm economy in the midst of a harsh readjustment, where will the funds come from to keep rural America alive? The funds should come from the marketplace with Government assistance.

The Whole Herd Termination Program, part of the Food Security Act, is moving forward to accomplish this goal.

Milk production in January 1986 was 8 percent above January 1985. July 1986 was 1.5 percent below July 1985. Because of this product change, market prices for the base commodities of cheese and butter are moving above support level and commodities purchased under the support program are being sold back into the trade. This program, coupled with the advertising program which is increasing per capita consumption of dairy products by approximately 4 percent per year since its inception, is a very positive effect and will enable dairymen to receive higher prices for milk.

---

[1] See p. 147 for the prepared statement of Mr. Sullivan

The Dairy Termination Program will have a positive effect on beef cattle prices in the long run. Dairy cattle and their offspring represent 20 percent of all beef marketed in the United States. The long-term effect of removing 950,169 cows, 340,789 heifers, and 257,995 calves from 13,988 production units should not be overlooked. Removing these animals from production during the Termination Program reduces the number of offspring that would have been raised and marketed as beef in future years. The removal of these future marketings will reduce retail beef supplies by 200 million pounds in 1988, 422 million pounds in 1989, and 490 million pounds in 1990 and beyond. This reduction in beef supply marketed will have positive effects on market prices for beef.

Any adverse effects on beef prices caused by the Whole Herd Buyout Program were of a very short-term nature and were due mostly to an emotional market reaction rather than an actual flood of dairy cattle to the markets. This reaction caused cattle prices to drop sharply for a short time in April, but prices soon rebounded and are currently at prices above the same period last year. The Government's commitment to purchase 400 million pounds of additional beef should have offset any short-term adverse effect the program may have had.

The Food Security Act of 1985 includes a Dairy Export Incentive Program. This could be an effective program for helping to establish new export markets for U.S. dairy products. However, the program has not yet been put into action, and certainly must not be a tradeoff for relaxing import quotas of dairy products.

The Food Security Act of 1985 also contains a program to promote the strengthening of the domestic casein industry. This program provides for the sale of CCC stocks of nonfat dry milk at less than normal price to entities who would use the product to domestically manufacture casein.

Another point of interest to the dairy industry and to the American consumer is that of food labeling. It should be required that food products be labeled in a manner that allows consumers to evaluate foods on the basis of their true content. Marketers of substitutes and/or imitation products and of products that contain substitutes and/or imitation products should be required to label those products accordingly.

Another area that calls for your renewed attention is the school lunch program, specifically the special milk program. Reduction in this program resulted in a 90 percent reduction in the amount of milk served to school children, from 1.5 billion one-half pints in 1981 to 175.1 million in 1984. This program is one of the few that assures that those in need receive the intended benefits. The Federal Government has expressed concern for the amount of surplus dairy products, yet has reduced the amount of milk available to the children of the country. Is it not better to reduce supplies while at the same time assuring proper nutrition to this country's children? Isn't the special milk program a program that will help children develop proper nutrition and dietary habits that they will carry with them to adulthood? We think this program can do these things, and we think it is important that they are restored to previous levels.

I would like to make public with this testimony that 40 percent of the cost of the Dairy Termination Program is being paid for by dairymen. Personally, almost $800 per month the last 3 months has been deducted from my milk check for the Dairy Termination Program.

Though the Dairy Termination Program will accomplish its goal of reducing production in the short term, dairymen nationwide, like the wheat farmer, are looking at a supply management program for the future.

Dairy farmers and their cooperatives the next few months will be studying supply management plans implemented anywhere in the world and, hopefully, by the spring of 1987 we'll have a supply management plan, that the whole industry will support, ready to present.

Lately we read much about the American steel industry being bankrupt. This is understandable when you consider the largest consumer of steel, agriculture, is suffering a financial depression.

Dairy farmers are not immune to the financial depression I speak of. I know dairymen in at least 15 States, I meet with them regularly. I do not know of one dairyman whose income will pay their expenses at the present time.

I would be amiss if I did not mention the high cost of interest to agriculture at a time when the prime rate is 5.5 percent and agricultural producers are trying to pay 12 to 14 percent. Something should be done so that the American farmer pays no more in interest than the countries that America loans money to that compete with us.

In closing, I would like to thank you, Senator Zorinsky, Senator Exon, and Congressman Bereuter, in allowing me the opportunity to testify today. If, in your good judgment, you can find any way to convince your colleagues in Washington to renew the Special Milk Program to 1980 levels, you will not only be doing the dairy industry, but all American children a great service.

I would hasten to add, the American dairy industry has been chastised by the beef industry for the Dairy Termination Program when, in reality, the dairymen's Dairy Termination Program will do more in the long run to help beef prices than any program the beef industry has proposed. American dairymen welcome any effort to work together with producers of all agricultural commodities for the betterment of the American farmer.

I would also add that we do not anticipate any dairy products being purchased by CCC other than nonfat dry milk in the fourth quarter of 1986. Can any other commodity group make similar comments?

Thank you very much.

Senator ZORINSKY. Thank you, John.

Congressman Bereuter.

Mr. BEREUTER. I just want to thank you for your testimony. I think it's very explicit and I appreciate it.

The statistics about milk for shoolchildren is rather depressing.

Mr. SULLIVAN. Alarming.

Senator ZORINSKY. Senator Exon.

Senator EXON. John, you agree though, don't you, that that dairy herd—in other words, you said, for whatever reason, caused a dramatic decrease in beef prices.

Mr. SULLIVAN. It did in the short run, yes, Senator.

Senator EXON. At least when that was being discussed back there, we were told, and the assumption was, that that would be spread out under the direction of the Secretary of Agriculture over a period of time and it would not allow that meat to come on the market in such a compressed time. The impression I had from it was terribly badly handled. Is that true or was there no way to get around that?

Mr. SULLIVAN. Perhaps it was badly handled in that maybe more cattle reached the market in the first few months than anybody anticipated.

Senator EXON. Was there a way the Secretary could have stopped that?

Mr. SULLIVAN. Well, of course, something has been done to those that entered the first period.

Senator EXON. No; but at that time.

Mr. SULLIVAN. I don't know, perhaps things could have been.

We thought that the additional purchase of 400 million pounds of beef by the Federal Government, of which 200 would be used for export and 200 million for domestic programs, would more than offset the dairy cattle going to market.

Senator EXON. Yes. But, if I remember right, that purchase was not made until after the price decrease; isn't that right?

Mr. SULLIVAN. I cannot answer that, Senator.

Senator EXON. All right, let me ask you another question. What is going on with the average return to the milk producer in the United States today? Making a little money, breaking even, losing money?

Mr. SULLIVAN. Well, I'd say more of them are just about breaking even; if anything, losing things. There's always the unexpected things that come up, you know, the combine that breaks down that costs you $4,000 that you can't replace, or the truck that has to be overhauled, or the bulk tank that got a gas leak that cost me $12,000 last week to replace. Like all agricultural producers, there's always the unexpected that comes up that makes it very rough producing any agriculture commodities.

Senator EXON. Would you say, John, on average, probably the milk farmer is not in quite as much difficulty as some of his counterparts in other sectors of agriculture today?

Mr. SULLIVAN. I think over the last few years, this had definitely been true. Unfortunately, every loan institution encourages everyone to get into the dairy business, to milk a few cows to try to cashflow, so that ruined the dairy industry, too. Things could be much better than they are.

Of course, right now we have 40 cents a hundred being deducted for the Dairy Termination Program; we have the Gramm-Rudman at 12 cents a hundred being deducted. Things are just very tight, Senator.

Senator EXON. As an advocate—and you've heard me advocate this several times this morning—of mandatory controls, only because of the situation that we face today, we have had with our milksheds, we have had a measure of controls, have we not, in the dairy farming business for some time?

Mr. SULLIVAN. Well, to a certain extent this may be true, although I guess any individual producer could produce all they wanted, and always have been able to.

Senator EXON. Well, but then they have to meet pretty strict standards, don't they?

Mr. SULLIVAN. Oh, yes, very much so and, of course, unfortunately, some of the products imported into our country do not have to meet them standards.

Senator EXON. That was my next question.

Are you having difficulty also with quality of milk being imported from other countries and not meeting the standards that you're required to meet as a milk producer?

Mr. SULLIVAN. Not personally, but I'm sure that's happening in the industry, yes, sir.

Senator EXON. I suppose where you're adjacent to a border somewhere?

Mr. SULLIVAN. The imported products do not have to meet, for instance, the standards of foot-and-mouth disease which could be translated into powdered milk that could wipe out the beef industry within a matter of a few months. It could spread over the whole country.

Senator EXON. Thank you, John, I appreciate your testimony.

Senator ZORINSKY. John, thank you for your comments.

You know, when we develop these type of compromises, we try to assure a nondetrimental effect to different agricultural industries. When this was being harmmered out in Pat Leahy's office, we were being assured that the culling of the herds would be specifically stretched out over a period of time, to avoid any adverse affects. The cattle people were in on that compromise also. Unfortunately, it didn't work out as it was intended and I would hope that in the future when we do these type of things, we work together as one industry to further assure that we don't adversely affect your industry or their industry by any such Government legislation that we propose.

Mr. SULLIVAN. This has always been the dairymen's bill, Senator. We've always worked with other commodity groups. The dairyman has never advocated cheap grains. We've always worked with the beef industry and nationally they agreed to our Dairy Termination Program. Unfortunately, the producers in this State do not.

Senator ZORINSKY. Do you still feel that there's an excess of casein being imported?

Mr. SULLIVAN. Yes, sir.

Senator ZORINSKY. Do you know where we get a lot of casein from, which is a substitute for a milk product? The Soviet Union, and why we do that, I don't know.

Mr. SULLIVAN. A lot of things a lot of us don't know, Senator.

Senator EXON. So we can sell them wheat.

Senator ZORINSKY. We don't want to buy sugar from Cuba, but we give Canada a sugar quota so they can buy from Cuba and ship it into the United States under their quota, and so on. There are many things there that need to be resolved.

Thank you very much, John.

Mr. SULLIVAN. Thank you very much.

Senator ZORINSKY. Verner Magnusson, the secretary-treasurer of the National Association of Farmer-Elected Committeemen, and Paul Underwood, the president of the Nebraska Grain Sorghum Association, and Gerald Vortman, the president of the Nebraska Soybean Association.

Incidentally, I have a late bulletin here I would like to make the audience aware of. There's a university scheduled ice cream social to be held at 4 o'clock today. In case of rain it's to be held in this room. It's pretty cloudy and cool outside, so I may want to try to wrap this hearing up by 3:30 or so to give them time to set up this room in case it starts raining outside. So, I would appreciate any condensation of your statements. I assure you that your printed statements will be printed in the record as if presented in its entirety. That would give us more time for questions and answers.

With that, Verner, do you want to start?

STATEMENT OF VERNER MAGNUSSON, PRESIDENT, NEBRASKA ASSOCIATION OF FARMER-ELECTED COMMITTEEMEN

Mr. MAGNUSSON. Thank you, Senator.

I am Verner Magnusson, farmer and cattle feeder from Oakland, NE, presently serving as president of the Nebraska Association of Farmer-Elected Committeemen, better know as NAOFEC.

I want to thank you, Senator Zorinsky, Senator Exon, and Congressman Bereuter, for the opportunity that you let us come here and present our problems.

For background, let me say that on May 12, 1933, President Franklin D. Roosevelt signed into law the Agricultural Adjustment Act of 1933. The law provided the authority for the Secretary of Agriculture to establish State and local committees of farmers to act as agents for their neighbors to distribute benefit payments. The act provided production controls for cotton, corn, peanuts, rice, sugar, tobacco, and wheat, along with certain other livestock and agricultural commodities.

In order to speed up the process of strengthening farm income, the Commodity Credit Corporation [CCC], was created under the President's emergency powers and the first price support loans, similar to those made today, were extended on corn and cotton. Support rates at that time were from 45 to 55 cents a bushel on corn, and 9 to 12 cents a pound on cotton. This occurred in the fall of 1933.

The Supreme Court in January 1936 declared unconstitutional the production control features of the Agricultural Adjustment Act of 1933. Later, in 1936, the Soil Conservation and Domestic Allotment Act of 1936 became law. This legislation provided for soil-conserving and soil-building payments to cooperating farmers. To administer the program, farmer-elected committeemen were chosen by farmers in each agricultural community and county nationwide. Over the years, different administrations reduced the number of community committeemen and also their responsibilities. Therefore, in 1965, the National Association of Farmer-Elected Committeemen [NAOFEC], was organized for the main purpose of preserving and strengthening the committee system and also to strive for effective, profitable farm programs. This action was prompted by a memorandum from President John F. Kennedy to the Agricultural Stabilization and Conservation county committees in 1960, in which he stated,

> It occurred to me that the Agricultural Stabilization and Conservation county and community committeemen, who have rendered such outstanding service in connection with our varied agricultural programs, would be able to make some practical recommendations as to what is needed to solve the agricultural problems in their areas.

At our last meeting, June 28, 1986, held in Columbus, NE, members of NAOFEC approved a resolution urging farmers to vote "yes" in the then current wheat poll. Inasmuch as it appears that the administration's proposal of lowering the price of farm commodities in order to compete with foreign markets is not working since, for the past several months, the United States has imported more than they have exported, NAOFEC firmly believes that by controlling production in order to bring supply in line with demand, we can effectively improve the farm economy and, in turn, the national economy.

No additional subsidies would be required from the Treasury, thereby reducing the cost of farm programs considerably. As now admitted, the Food Security Act of 1985 will be the most costly farm program ever administered by the U.S. Department of Agriculture. A mandatory production control program would be self-supporting. Foreign countries would adjust their own production; in fact, many countries are now advising their farmers to reduce their plantings. Many countries are now exporting farm commodities who were heavy importing countries just a few years ago. The United States has been a factor in some of these operations by lending the countries both money and technical help.

Other segments of our economy do not overproduce when there is already a surplus of their products on the market, so why should agriculture? By limiting production and raising income for farmers in the marketplace, lending agencies would be more able to finance farming operations as agricultural assets would become more stable and the buying power of the farmers would be greatly and quickly increased, which would go a long way in turning the present deflated situation around. Deflation is an actual price collaspe. Agriculture has lost $250 billion in asset value since 1980. As a whole, the agricultural area has lost a total of $1 trillion in assets at a time when many would lead us to believe that the economy is strong. Deflation destroys wealth quicker than inflation, and saps buying power, thus turning the borrower into a bankruptcy debtor.

As natural resource values tumble, and wages fall, demand drops. Imports and deflation are serious cancers eating away at our heart here in the heartland of America. The administration can brag all they want to about the CPI and the GNP, but the brags mean nothing for neither measures asset values.

With $1 trillion gone in 4 years, and staggering losses ahead for lenders, the ripple into the rest of the economy is underway. Senator David Boren of Oklahoma said recently that 45 percent of the loans in Oklahoma banks were nonperforming—45 percent.

Again, the officers and members of the Nebraska Association of Farmer-Elected Committeemen urge the Congress to consider a self-supporting, mandatory production control program for basic farm commodities in order to stop further deterioration of this Nation's economy.

I thank you for the privilege of testifying at this hearing.

Senator ZORINSKY. Thank you, Verner.

Did you have anything?

Mr. CHRISTIANSEN. I just wanted to associate myself with some of the comments made earlier for the farm crisis.

Senator ZORINSKY. Could you give your name?

Mr. CHRISTIANSEN. Oh, excuse me. I'm Fred Christiansen. I'm the State vice president of NAOFEC which Verner just explained where they came from.

I just has a little emotional thing that I wanted to bring up that happened to me around Christmastime. I was at a party with, approximately, 12 farm families about my age. They were third and fourth generation farmers, everyone of them, and I was the only one in the group that was willing—that was planning on buying farm toys for my children. The rest of the group, they were all discouraging their children from even associating themselves with agriculture in the future because they were that down on what had happened to them, and what had happened to their parents, and what had happened to their neighbors, and I sure would like to impress that this is really the low time in agriculture, we hope, and we can go on from here and try and improve things.

Thank you.

Senator ZORINSKY. Thank you, Fred.

Paul, do you want to come up?

STATEMENT OF PAUL UNDERWOOD, PRESIDENT, NEBRASKA GRAIN SORGHUM PRODUCERS ASSOCIATION

Mr. UNDERWOOD. On behalf of the Nebraska Grain Sorghum Producers, we are happy to be here. We are a fairly new organization in the State. We haven't had a lot of influence on the national level. We're trying to make some changes so that we can have a more important part working with you people.[1]

I brought an article out of the local paper this morning that I hope maybe you have. I think it gives a little bit good news/bad news of the economy today. I think the bad news being that it said, of the farm bankruptcies in the State, we're already at the 200 percent level compared to last year. If there's any good news, it would only be that if you were a bankruptcy attorney that we're ripe for picking. I hate to bring up negative things but that was something that was brought to our attention.

Our testimony is fairly short. We have some areas of concern. One of them would be the program payments, and the positive side of this would be that we have received some of the deficiency payment up front, and we can see from some of the farmers in our area that this has helped cash flow problems greatly. We do think, though, the balance of the deficiency payments should be over a shorter period of time. I think it's going to be drawn out where it's going to start to lose its good effects.

---

[1] See p. 149 for the prepared statement of Mr. Underwood.

We also feel that any lowering of the loan or target prices are going to offset the positive good of the farm program.

This program announcement, we know of the complexity involved in the decisionmaking process in Washington. We know that it's tough to get programs out on time, but this is something we really encourage, that the farm programs are brought to us, the farmers, on a timely basis. You have to feel sorry for the wheat farmers and some of these people that had crops in, or the people down South that had crops in before the program was ever announced.

Another item of concern is the export programs. We feel that the export pressure is going to have to be continued if there is going to be good come out of this program. We are concerned that the Export Enhancement Program at this time is broadened to include all feed grains and wheat. We feel that the EEP will have to be made available not only to Russia, but to our reliable customers if this is to have an influence on our world market.

On grain quality, I'm not going to say a lot about that, but we as sorghum producers are interested in continuing to produce a high quality grain and make sure that it's exported, and so on the second page of our testimony are some grain standard proposals that we hope that you, our congressional and senatorial people, will endorse. They are just a small change but we think it would help the supply being delivered on a better quality basis.

We are concerned with some of the storage problems. We feel incentives for on-farm storage are a must if this type of farm program is to continue. We feel that we're going to have some increased storage rates, and I think this is being discussed at this time.

We also think that there needs to be available facility or storage structure loans. From the people we have heard in our area, they're claiming that the banks are not willing to loan money at this time on storage facilities. We think, if we're going to have to be storing this grain, we're going to have to do something on this line.

We also think some tax incentives, such as a 5-year depreciation on storage facilities and maybe even personal property tax exemption during the payoff period of grain storage facilities, would be beneficial. But we're going through a tax overhaul and we don't know if this is possible at this time.

Some program alternatives. I think we've talked about a lot—that the farmer doesn't get to contribute greatly. Well, I think through our organizations here relating this information to you is very beneficial, but we wonder at times if we're going to have to change this farm program that maybe we can go out with something that maybe your offices have come up with as far as choices in the farm program that could be sent out through the ASCS offices so that we could vote on whether it would be mandatory production controls or whatever.

In summary, what I would like to say is our sorghum producers would be glad to help take the itch out of the milo if you can help take the pain out of the farm program. Thank you.

Senator ZORINSKY. Thank you very much.
Gerald.

STATEMENT OF GERALD VORTMAN, PRESIDENT, NEBRASKA SOYBEAN ASSOCIATION

Mr. VORTMAN. Senator Zorinsky, Senator Exon and Congressman Bereuter, I am Gerald Vortman, soybean producer from Carleton, NE, and president of the Nebraska Soybean Association, and I welcome the opportunity to testify here today.

As you know, the 1985 Food Security Act was signed into law January 1986. This legislation was significantly different from previous years—moving toward a greater flexibility of loan rates and attempting to make U.S. soybeans and other commodities more competitive worldwide.

However, it is difficult to measure the success of the Food Security Act due to the short period that the law has been enacted and the already distressed farm economy.

The Soybean Association realizes that we do not have a guaranteed market for U.S. soybeans, especially considering the stiff competition that we get from other oilseed products like rapeseed and palm oil. Just this last month, a major U.S. food company announced plans to market a rapeseed-based cooking oil competing with soybean oil. The company's decision to market the rapeseed was to take advantage of the Canadian subsidies which leaves little chance for U.S. soybeans to compete with the subsidy. The subsidies are crowding U.S. soybeans out of the market.

As we see it, a competitive world market is important to Nebraska soybean producers' profitability. We must remain competitive but at the same time enhance soybean farmers' income.

Gentlemen, I stress the need for Government to create an environment economically favorable to agriculture sector. This involves export programs, lowering the dollar value, reducing credit restrictions. However, to add to the economic condition of the agriculture sector, a Government loan program needs to be maintained for soybeans to enhance producers' incomes.

Just this last month we met in Cincinnati, OH, and the Nebraska delegates, together with the American Soybean Association, voted in favor of the soybean program that provides a minimum of $5.02 per bushel support and avoids stock buildup and maintains market prices for U.S. soybeans at competitive levels. All soybean farmers would be eligible for a soybean support program without payment or increased limitations of any kind.

Now, considering the vast number of bushels under loan this year, and the soybean stock buildup of 846.6 million bushels as of June 1, we think steps need to be taken to reduce this buildup. The current farm bill, we feel, does not adequately address the stock buildup and does not create an atmosphere for decreasing the stocks. The Soybean Association supports two ways to avoid this buildup of stocks.

The first option is a producer option payment, or the POP that you have been hearing about, and that would pay the farmers in PIK certificates, possibly up to 20 percent, if they agree not to put their soybeans under loan but redeem them at $5.02. This program would protect farmer income at a minimum of $5.02. The effect on competitiveness depends on certificate value. Generally, if the market price was higher than $5.02 minus the certificate value, farmers would exceed the $5.02 value.

The second option we have is a marketing loan, which is another plan that would help decrease the stock buildup. Farmers would put soybeans under loan at $5.02, but would repay at the world market price, if that were less. The marketing loan removes the U.S. loan rate as a floor under world prices.

And, incidentally, of all of those six charts, you don't see any up there on soybeans. This year soybean exports are running 25 percent above last year, but this does not meet previous 1981-82 export levels. Exports are up due to the decline in the dollar value and the economics of other countries; however, we should not forget our competition, Brazil and Argentina. Beginning in 1973, the year of the grain embargo, these countries began expanding soybean production and now Brazil exports more soybean oil meal and oil than the United States.

Gentlemen, I cannot stress enough the importance of continuing some kind of an enhancement program for our 20,000 Nebraska soybean farmers, and at the same time be competitive in the world market. Also, you and your colleagues in Government need to strive for a positive economic situation nationwide, including the farm belt. Again, I thank you for the opportunity to speak here today and I hope that you will take these recommendations back to your colleagues in Washington.

Senator ZORINSKY. Thank you, Gerald.

Senator EXON. Gentlemen, thank you all for your excellent testimony.

Let me start off, Gerald, if I can, with you. The reason soybeans weren't up there, they were not included on the preliminary report that we got back. We'll have some information on soybeans. I didn't have that yet. Oats aren't up there, barley isn't up there; pork isnt up there; beef isn't up there. We weren't picking on the soybean people.

Mr. VORTMAN. All right.

Senator EXON. I heard you get that in and I just wanted to reply.

Another reason that maybe it wasn't up there is that for many years the soybean people have been marching into Washington and saying, "Just leave us alone."

Mr. VORTMAN. That's right.

Senator EXON. "Don't touch us."

I take it from your testimony here this afternoon that you think it's time that we recognize you because you are not too far removed from corn and wheat, and these other people that are now having some great difficulty. And so I welcome that, and I thought your testimony—and I made notes on it—was very good and very much to the point.

Let me ask if you can clear up for me a great deal of confusion that took place on the floor of the Senate last year with regard to soybeans. Ed, you remember, you and I were there and we, for the life of us, couldn't figure out what was going on because we were getting one set of signals from one place and Rudy Boschwitz from Minnesota was up claiming to represent the soybeans with another proposition. And we, for the life of us, couldn't get what you soybean farmers in Nebraska wanted.

Had you made a decision on that, or didn't you know?

Mr. VORTMAN. Well, we're really happy that this year we came away from Cincinnati united, and the program that we present to you, we will have a united soybean front.

Senator EXON. OK, but there was some difference of opinion on that one, is that right?

Mr. VORTMAN. Right, and we're sorry that ever happened.

Senator EXON. I think it was mentioned somewhere before. I think Doug mentioned that we get conflicting signals from some of these local people on the national association. We have that from time to time with the wheatgrowers, too, but we quickly get a very loud and a very clear signal what our Nebraska wheat people want. But thank you for that important information.

Vern and Fred, when you were testifying, you said something about mandatory controls. I know your organization strongly supported the referendum, and that was good.

I just wanted to say for the record, to clear it up, I assumed it was assumed, but I found out that it was not when I stepped out of the door for 5 minutes—the only time I've been outside the door since we came in this morning—and that was that the people were asking me the question: "Well, if you're going to have mandatory controls, isn't that going to drive up the prices of commodities in America."

And I said, "Certainly, that's the idea."

And they continued saying, "Well, then what is going to prevent our people from buying internationally at a cheaper price?"

And I said, "Well, obviously, I thought it was assumed," if it is not assumed all should know, "that there's no way that we're going to have mandatory controls here at home without having some tariffs to protect the food processors from going outside of the country, as one or two tried to do a year ago when shipping in wheat from abroad." So is that not generally understood, that if we have mandatory controls to force wheat prices up, we would have to have some selective tariffs, at least, on certain products to prevent that from happening.

Mr. MAGNUSSON. Well, naturally you've got to have something to the effect. But, if you think back, when we had $4 corn, we couldn't hardly sell it fast enough. We had $13 beans at one time, and we had to put an embargo on Japan from buying them, so price really doesn't mean anything.

Senator EXON. Well, of course, we had a different supply situation at that time, didn't we, Vern?

Mr. MAGNUSSON. Well, right, but I'm saying that price really doesn't mean anything. People will always—they'll buy it when they need it.

Senator EXON. Yes.

Mr. CHRISTENSEN. There has to be some mechanism for controlling imports because if Canada is willing to ship wheat in for $1 and our loan is $5——

Senator EXON. That's my point, we've got to have something or the mandatory controls won't—would be self-defeating here at home, wouldn't they?

Mr. CHRISTENSEN. Right.

Senator EXON. Paul, let me thank you for your testimony. I thought it was excellent what you brought out about the enhancement programs—that the Soviets have to be in that too, because if the enhancement program was designed—which I do not think it was—to subsidize through export enhancement, PIK, or whatever you want to call it, only those small countries where we had lost some of our market, then it was a program that was doomed to failure in the first place. Even the Soviets, whom I spend half of my time in Washington on the Armed Services Committee planning and plotting against—I can see from a business, free enterprise, standpoint that the Soviets would be most unhappy if as a major purchaser of our raw grain, we were giving somebody else a better price than we were to them, and to me that's self-defeating on its face.

The reason that the banks—and it's true, I heard what you said—are not willing to loan money for storage facilities. Well, the reason for that, of course, is the banks see that there's no way they can come out on loans to put up storage facilities to store grain that you're going to sell for less than the cost of production so, at least, in some instances the banks may be doing the farmers a favor by not loaning them money to store something that's going to cost them money to store.

And then last but not least, I always wondered why you sorghum people grew sorghum instead of corn. In addition to the shortage of water, you've explained the problem to me and I understand it a little better.

Thank you for your testimony.

Senator ZORINSKY. Thank you very much, gentlemen, and we appreciate your presence and your presentations. Thank you.

Bob Anderson, president of the Nebraska Cooperative Council, and Richard Sanne, the executive vice president of the Nebraska Grain and Feed Dealers.

STATEMENT OF ROBERT ANDERSON, REPRESENTING NEBRASKA COOPERATIVE COUNCIL

Mr. ANDERSON. I am Robert Anderson representing the Nebraska Cooperative Council. I wish to direct my remarks at the Food Security Act of 1985, particularly section 1631, which deals with the farm products exception present in the Uniform Commercial Code, section 9-307. While we support this legislation, there are some areas which remain matters of concern.

For example, if a State adopts the central filing system as its choice of the mandated two procedures, who is to bear the cost of the inquiry of that system? While such a system is suitable for large purchasers of farm products, it is going to be difficult for smaller elevators to bear the cost of such inquiries, if that cost is to be borne by the buyer.

If the State opts for the notification procedure, some direction should be given to the lenders, or some control exercised over them by the Department of Agriculture in its regulations as to the notice being sent. That is, can a lender simply mail a notice for each of its farm borrowers, regardless of their individual financial condition or the state of their loan, or should the notice be limited to borrowers who have an overdue loan or an overdue payment on the loan? Additionally, the act is ambiguous as to whether the lender has an absolute right, if he has a lien, to require the purchaser to pay the purchase price to him in a single party check. This is what is being demanded by the notices sent out by Nebraska banks, apparently at the direction of the Nebraska Bankers Association. We are concerned that this approach gives to the lender, in effect, the absolute ownership of the farm product even though the borrower's loan may be current and his record excellent with the lender. We believe that some fine-tuning of this legislation should occur.

Senator **Zorinsky**. Dick, do you want to make your presentation?

STATEMENT OF RICHARD D. SANNE, EXECUTIVE VICE PRESIDENT, NEBRASKA GRAIN AND FEED DEALERS ASSOCIATION

Mr. **Sanne**. Yes. I'm Richard D. Sanne, executive vice president with the Nebraska Grain and Feed Dealers Association, and I will keep my testimony brief.

I thank you very much for the opportunity to appear before you today.

There are basically two situations that I want to address. No. 1 is the storage situation, and there are just a couple of points that I would like to bring to your attention under that situation. No. 1 being the commodity certificates. It is our understanding that commodity certificates may have been intended, at least partially, as a means of helping to move this grain out of our Midwestern States. Some of the actions that the ASCS has taken recently have been generated in that thrust. For the most part, I would like to point out to you that these certificates are not moving great amounts of grain. Some of them are being used on grain to enable the warehousemen to keep ownership so that they can supply local feed markets primarily. For the most part, we don't see them being used in large amounts to move grain out of the Midwest. The only way that we can see that that type of situation might work—and we are not asking for any type of enducement or anything—but if there were a differential provided on the certificates before farmer markets and warehouse markets, they might work. Right now, the way the structure is set up, however, they don't provide that incentive so that the warehousemen can use them in that manner. Basically, most warehousemen in Nebraska are reselling the certificates. In doing so, there's, approximately, 2 percent that can be made in that manner, but they really can't use them to buy grain and, in turn, move it out of the Midwest.

We would like to also ask that ASCS re-evaluate their structure for moving grain. Their present rules provide many inequities. One example that I could give you to support this would be, there's a warehouseman that is a member of our association, who operates in the central part of the State. He owns a number of facilities. He is not permitted any transportation assistance between his facilities, to move grain from his country houses into his subterminal location. On the contrary, other people operating within that 20-mile radius can use that system. The system that is provided for him would be a rail system, but there is an inequity of an additional 13 cents for moving that grain the distances he's looking at by rail as opposed to truck. I'm using that merely as an example to point out that there are some inequities in the structure. If those types of things could be dealt with and worked out, we feel that those are some of the things that might enable the movement of grain out of the Midwest.

Another thing that we would like to offer—and, again, this is not an attack on ASCS personnel or anything like that. We understand that those folks are heavily burdened, especially in their Kansas City office, but because of that—and that's one of the reasons we're offering this—because of that swamped condition that they are in, we feel that if they could be provided assistance in traffic and merchandising areas, if additional folks could be provided to them at this point in time, people with experience in moving and marketing grain, that might also help the situation that we are in. And one item that I would suggest in that line would be, for example, there are a number of retired grain people that would have that type of experience on a short-term basis that might be able to help that situation.

Because of those types of comments that I had been making in that line, one general comment that I would like to make is—and I think of the things that I have been suggesting lead to this—that possibly a working committee be formed between ASCS personnel and warehousemen that could sit down and look at these issues and address them. There may be solutions that could be offered that they could work into their system, revise their system, that type of thing.

The other topic that I would like to talk about or address just briefly is the topic of clear title which of course, was addressed in the 1985 farm bill.

First of all, as purchasers of farm products, we would applaud the passage of that. We feel that it was much needed relief to farmers and other agriculture commodity purchasers. It dealt away with the inequity that we felt existed in the Uniform Commercial Code in that regard.

The thing that I would like to point out and address to you folks is that there are a number of—at least in Nebraska, there are a number of erroneous things being said about that provision. Some of the things that we have dealt with or have heard have to do with the December 24 inception date, that being a cutoff date when central notice systems must be installed. I'm sure you are all aware that is not true, December 24 is not a cutoff date. Central notice systems could be installed by States at any time after that date, if they so desired.

Another one that we have heard is central notice is the only system for notification and, again, that is an inaccuracy. Direct notification is another system, a perfectly viable system.

Those are the things that we're concerned about, that this whole issue may be addressed on some of those inaccurate items that are out right now.

We would say that we feel that this was necessary legislation for farmers and agriculture product purchasers; that we welcome it, and we would encourage you not to delay the inception date. We encourage you to permit this to go into effect on December 24 of this year, as it was originally scheduled, and permit the legislation to act.

That is the extent of my comments.

Senator **Zorinsky**. Thank you.

Senator Exon.

Senator **Exon**. Thank you, Mr. Chairman.

Dick, let me ask you a little bit about this reporting system that goes into effect here in Nebraska. What did you say for the reporting system of some kind?

Mr. **Sanne**. You're talking about the clear title?

Senator **Exon**. Yes.

Mr. **Sanne**. I was referring to the December 24 date when the legislation will take effect on a national level. That has, of course, nothing to do with Nebraska individually, but the national inception date that removes the farm products exception from the Uniform Commercial Code.

Senator **Exon**. Is there not in process a computer system that would allow checking to see whether there were recorded liens? Well, what happened to that? That broke down somewhere in the legislative process, or what happened to that?

Mr. **Sanne**. Nebraska does have a central indexing system in place right now, Senator. That, of course, was not affected by this legislation, by the national legislation.

Senator **Exon**. But anyone who was concerned about that still has a way of checking it through the system that you have established here in Nebraska?

Mr. **Sanne**. That is correct.

Senator **Exon**. And that has been in operation how long?

Mr. **Sanne**. I'm not sure of the date that it went into operation. It has been in operation for some time now.

Senator **Exon**. And is it used quite extensively to check for liens on——

Mr. **Sanne**. It has been used up to this point in time, that's correct.

As of December 24, the national legislation that stands, assuming that it were permitted to stand, would not require purchasers to use that system to check because they would be relieved of that double jeopardy situation.

Senator **Exon**. All right, let me ask one other question. This problem that you're having with shipping grain around, I understand some of the problems are that because of budget restraints, and then Gramm-Rudman cuts it, that they don't have the personnel to—the seasoned personnel, the experienced personnel, to get the job done. And if some money were freed up, they could maybe hire some people that are retired from the system that could come back and help alleviate this crisis situation we're obviously going to have here for the next 90 days?

Mr. **Sanne**. Yes, sir.

Senator **Exon**. That need for hiring people, is that a Nebraska problem only or does that extend, you know, to Kansas. It's all over?

Mr. **Sanne**. You bet, it would be for the entire Midwest.

Senator **Exon**. So, what you're saying, if we could do anything to get the Secretary of Agriculture to free up some money, or provide some money through some source—there's all kinds of money sources back there—to hire some people back to speed up this program, that would do as much as anything else to help—that we could do immediately to help alleviate this storage problem?

Mr. SANNE. That's most definitely a big part of our problem.

Senator EXON. The chairman wrote a letter, I think, earlier on this very subject, and we'll try again on that.

Thank you.

Mr. SANNE. Thank you.

Senator ZORINSKY. Congressman Bereuter.

Mr. BEREUTER. Thank you for your testimony.

Are you going to assure us that you and farm organizations won't be coming to Congress next year with a crisis on clear title because of problems between the financial industry and the agricultural industry and asking us how to make a correction in what happened to the 1985 farm bill? Are you assuring us that won't be necessary?

Mr. SANNE. Individually, of course, I can't make any assurances like that.

Are you referring to problems with ag people not being able to obtain loans? Is that the reference?

Mr. BEREUTER. Correct. Well, that's one aspect of it.

Mr. SANNE. I don't have specific data in front of me; however, there have been 13 individual States who have as early as 1974 implemented some form of clear title. I could obtain the information and provide information to you that would reflect that those 13 States have not experienced that type of problem.

Mr. BEREUTER. You're perfectly willing to let December 24, 1986, pass without action by the Nebraska Legislature?

Mr. SANNE. Yes, sir.

Mr. BEREUTER. OK, we've got that for the record.

Thank you.

Senator ZORINSKY. Thank you, Richard.

Mr. SANNE. Thank you.

Senator ZORINSKY. Bud Riblett, vice president of Farmers and Merchants Bank in Milford, and Mike Dunn, vice president of the Farm Credit Banks of Omaha, and Ralph O'Conner, chairman of the Nebraska Gasohol Committee.

Would those three gentlemen please come forward?

Bud, do you want to start?

Mr. RIBLETT. Thank you, sir.

Senator ZORINSKY. If we can, could we keep our opening statements short so that maybe we can spend more time in the question period?

STATEMENT OF D.D. BUD RIBLETT, VICE PRESIDENT AND LOAN GUARANTEE OFFICER, FARMERS AND MERCHANTS BANK

Mr. RIBLETT. Mr. Chairman, I hear your good and wholesome advice for my labors. Having received previous instruction on preparing this, my brief instructions are going to be very brief.

First of all, I have written testimony that has been prepared and handed out for your use, and I'm not going to do anything other than just introduce the subjects.[1]

As vice president of the Dunlap Banks in Milford, and an ag consultant for nine other banks in Nebraska, my testimony is my own. The Dunlap Banks were gracious in letting me present my testimony but it does not necessarily mean they're a sanction of what I have to say.

I'm referring first to an internal problem in processing the agriculture loans, and I'm going to let the paper speak for itself, because in 30 years of Federal service and 20 years at the executive level in the Farmers Home Association, I'm not seeing what is happening out in the field, and the objectives of the program are not going as smoothly as they could be.

The next paper I have is I want to talk about an allotment of FmHA guaranteed farm ownership loans, and this does have a definite effect on farmers in Nebraska. The regulation now provides that the Treasury must hold $1 in reserve for every $1 that's guaranteed, and that's totally out of line because the records will show that it only costs 5 cents on the $1 to administer the program and 5 cents for losses. Then that means that really only 10 cents on the $1 is needed to be held by the Treasury to function this program. Again, this money is not appropriated by Congress. The lenders make the loans and service the loans, and it's a paper transaction. However, in accordance with the budget restrictions, the Government is holding $1 in reserve for every $1 that is guaranteed, so that means the Government is saying that they don't have faith in the program and they're holding more back—they're holding $1 in reserve for every $1 that is loaned because they think that's a possibility of a total loss. I think that's entirely wrong. You could increase that allotment 900 percent and that would give individual farmers an opportunity to get a loan from the lender and have it guaranteed by the Government, and not be a cost to the taxpayer.

The last issue I have I think is most important. I don't believe the public is aware that come January 1, 1987, there's going to be 3.5 million acres of land go into Government inventory, and that land can be taken out of production which will help alleviate the supply-demand crisis that we're in because when the Government takes land in inventory, the Government does not have the authority to seal grain or compete against farmers, and rightly so, that means when this land goes into inventory, Farmers Home then will contract out people to manage this, and then farmers must rent this land for cash rent, and they can produce fence row to fence row.

I would propose that this is an internal problem that could be corrected by either Executive order by the President, or a direct demand by the Secretary of Agriculture that this land be taken out of production and then transferred to the Department of the Interior. That would relieve the political pressure in the Ag Department, and then request the Soil Conservation Service to present a land-use map on these tracts of land, and you're going to find that a considerable amount of this land is not suitable for crop production. It can be used for grazing, it can be used for recreational purposes, it can be used for reserve, and it would be far cheaper to the taxpayer to take that land out of production, hold it off of the rolls, and there's—excuse me, it would still be taxable but it would hold it off production and, therefore, that land not returned to the public sale until it's suited and treated for whatever use it's best adapted for. And this is the thing, I think, that's most important. I'm not convinced that the public knows that there's a possibility of this much land that's going to come off the production rolls in the hands of individual owners who have defaulted in their loans to the Farmers Home Administration, or farmers who have just taken out bankruptcy, for whatever reason that they have, and this land is going to go into inventory, and then that token, if it's rented out to farmers for cash rent, it will be produced fence row to fence row because that's the only way you can ever hope to make any money in the cash rent system, and I think that's totally wrong. It would be far cheaper to hold that land off of the rolls at the present time.

---

[1] See p. 150 for additional material supplied by Mr. Riblett.

I want to thank you on behalf of the Dunlap Banks for the opportunity to testify and I appreciate the work that you fellows are doing in Washington.

Senator **Zorinsky**. Thank you, Bud. As usual, you're very concise and to the point, and very factual.

Mike, would you like to make your opening comment?

STATEMENT OF MICHAEL V. DUNN, VICE PRESIDENT, FARM CREDIT BANKS OF OMAHA

Mr. **Dunn**. Thank you, Senator Zorinsky.

I am Mike Dunn, the vice president for the Farm Credit Banks in Omaha for government relations. I thank you, Senator Zorinsky, for having this hearing of your committee here in Lincoln and, Senator Exon, and, Congressman Bereuter, I applaud you for attending this hearing.[1]

It's very rare that as a representative of a farm lending institution, especially one that is as troubled as we are in the Farm Credit System as we hear what is happening to our members who are farmers and ranchers, that I have an opportunity to endear myself to the congressional delegation. But I will take this opportunity today by not reading my prepared comments and hopefully speeding things along.

Senator **Zorinsky**. I wish I could read your prepared comments that you gave a year ago at this hearing. I am sorry, I couldn't let that pass.

Mr. **Dunn**. Well, what I would like to do, with your help, is turn to pages in my prepared statement that is headed "Nebraska Land Value," and if you would turn to that chart, I would like to walk you through that chart.

Senator **Exon**. What page is that on, Mike?

Mr. **Dunn**. That is the second to the last page.

One of the real problems that we're seeing in the area of agriculture has been the $240 billion loss that we have suffered because of devaluation of agricultural land. In Nebraska, there has been 17,588 million dollars' worth of loss of wealth because of the devaluation, and almost half of that took place in 1985. So, Mr. Chairman, that's one of the reasons why my testimony is vastly different than it was a year ago. That 50-percent devaluation has had a tremendous impact upon us and, of course, upon the farmers and ranchers of the State, other lending institutions, implement dealers, all agribusiness in the State itself.

---

[1] See p. 151 for the prepared statement of Mr. Dunn.

What I have done here is prepare a chart to show you where land values are now vis-a-vis what their production value is based upon today's price of corn utilizing the Government program. I've made some assumptions in there. One of the assumptions is that you can buy land at a 9-percent interest rate. Unfortunately, you cannot get that from the Federal Land Bank but that is a prevalent rate if you are going on contract. That 9 percent—and I've used the production cost in there that the University of Lincoln and the University of Iowa would put in for corn production, and I have based the amount of production, based again upon the University of Lincoln. You will see that at this time, 1985, we have a $2.42 per bushel return on corn, if you're in the program. That is 80 percent of the ARP. If you have the current land value at $860, based upon that, when you take out a 9-percent interest rate and the production cost in there, land value should be at $1,180 an acre for irrigated land, and $826 an acre for dryland, based upon today's program. That is 37 percent higher than the current land value, based upon the 1990 program which will be, approximately, $2.20 if you go through the target price and take out the 20-percent ARP. You see that the land value for irrigated land drops down to $843, and for dryland, $629, a drop of 2 and 6 percent respectively.

If you go to a long-term futures price, say December 1987, you see corn valued at about $2 a bushel, and that translates into $536 an acre for wetland, and $449 per acre for dryland, a drop of 38 and 33 percent respectively.

Gentlemen, I subject to you, you have suffered very much in the State of Nebraska already because of devaluation of ag land.

In my paper I point out that the commodity prices are simply one variable and shouldn't be taken in a vacuum, as I have done here, because there are other variables in there including production cost, interest rates, et cetera, but it is a very, very sensitive variable.

We have been saying in the Farm Credit Bank for, approximately, 2 years now that we do need a return of profitability to agriculture before we can see an end to the problems that the farmers and ranchers are facing.

I would ask the members of this panel today to do everything within your power to help us bring back profitability in agriculture.

Senator Zorinsky. Thank you, Mike.

Ralph O'Connor.

STATEMENT OF RALPH E. O'CONNOR, CHAIRMAN, NEBRASKA GASOHOL COMMITTEE

Mr. O'CONNOR. Thank you, Mr. Chairman, Senator Exon, Congressman Bereuter.

I'll dispense with my preliminaries in the matter of time.[1]

I'll say this, I'm currently the chairman of the Nebraska Gasohol Committee, the newly created ethanol authority and development board, and a member of the agriculture revitalization authority.

My written comments focus on two specific areas of the Nebraska 1985 Food Security Act. In my present role as chairman of the Nebraska Gasohol Committee, I will focus my comments on two specific provisions of the Food Security Act. The first provision authorizes the Commodity Credit Corporation to make commodities available for sale at no or reduced cost to encourage production of liquid fuels. I commend your efforts to include this provision because it provides an opportunity to dispose of a small portion of this country's grain glut. More importantly the CCC option is currently being exercised in order to assist the U.S. fuel ethanol industry. Disappearance of this grain immediately eliminates storage costs for the grain while offering the potential for a positive grain price response. Frankly, I was surprised that the decision to use this CCC provision in the farm bill was used by Secretary Lyng. The USDA has not traditionally been supportive of the ethanol industry. I suspect that were it not for the insistence of the farm State Senators this provision would not be used. I want to also commend Senator Zorinsky and Senator Exon for asking the General Accounting Office to prepare a study which examines the use of CCC stocks as collateral to stimulate additional ethanol production. If this new study is consistent with a 1984 GAO study, the conclusion will be that ethanol production provides a positive boost to our economy.

The 1984 GAO study pointed out benefits of the ethanol industry in the following areas: Domestic economic improvements resulting from job creation, reduced grain storage and deficiency payments, new capital investments and value added grain processing; international trade improvements resulting from reduced oil imports because of ethanol substitution and increased exports of corn gluten and distiller grains; enhanced national security because of reduced imports from the Middle East and other politically unstable regions, and the development of reliable new domestic markets for our grain.

For all of these same reasons, it continues to make sense to support the development of a domestic fuel ethanol industry. Those of us involved in agriculture have shown the ability to be the best grain producers in the world. We now need to steer agricultural policy into a direction which provides reliable markets for U.S. grain. The fuel ethanol industry has proven to be one such market. Encouraging the growth of this market through public policy can directly benefit grain producing States like Nebraska.

The second area of the farm bill relating to ethanol is the requirement that the Secretary study the cost effectiveness, economic benefits and feasibility of establishing, maintaining and using a strategic ethanol reserve, in relation to the existing strategic ethanol reserve.

---

[1] See p. 154 for the prepared statement of Mr. O'Connor.

In conjunction with the existing CCC authority, the USDA could stimulate a significant increase in domestic ethanol production without disrupting the current ethanol market. A strategic ethanol reserve could serve as a repository for fuel ethanol produced under supply contracts with the Federal Government. These supply contracts could be similar to contracts used by the Synthetic Fuel Corporation.

The guaranteed market would provide a strong incentive for investment in new ethanol production facilities of which we are badly in need in this Nation today. Depending on the fill rate for this reserve, ethanol project financiers would be certain of guaranteed demand and revenue for ethanol produced in response to such a program. In turn, this certainly would install investor confidence and attract capital to the ethanol industry. Storage facilities for a strategic ethanol reserve could include idle storage at military installations, petroleum refineries and pipeline terminals, airbases and other locations which are unused or underutilized at the present time. New storage would not necessarily be required, particularly if idle petroleum storage was used. An additional advantage of storing ethanol in existing petroleum storage sites would be the proximity to refineries or pipeline terminals.

In the event of another oil supply disruption, which we saw in the 1970's, the ethanol would already be in geographic areas where it would be readily incorporated into existing liquid fuel transportation systems. In the event this ethanol was not needed in future years, it could be used as part of the U.S. military fuel supply. Our equipment today would run on ethanol, straight, if needed; alcohol engines would on 100 percent alcohol alone. Another option would be to use it to displace a portion of the gasoline used by Federal Government vehicles. In either case, it need not disrupt current commercial ethanol markets. The fuel would also store easily and its quality could be maintained easier than much of the grain now going into on-ground or barge storage.

Other advantages of a strategic ethanol reserve would be the ability to reduce grain supplies, which are very important today. We've heard it all day long. A reduction in grain storage and deficiency payments; a reduction in the amount of out-of-condition grain on the market and the creation of new job opportunities in rural America. Considering that these advantages should be a goal of a program designed to assist grain producers, the concept of a strategic ethanol reserve should be given serious consideration.

For instance, Saudi Arabia's fiasco, the article which many of your people have seen in the past, "U.S. to back firm of Saudi billionaire to build an ethanol plant in the southern part of this nation to process alcohol from——

Senator EXON. Louisiana, wasn't it?

Mr. O'CONNOR. Louisiana, you're right, Senator.

What were they going to produce it from? Molasses and sugar cane from foreign countries, and we promote money——

Senator EXON. We give them money.

Mr. O'CONNOR [continuing]. Put it down in the South for this kind of stuff. It's totally ridiculous. We should be producing and utilizing our own production such as our own grain rather than importing sugar cane from South America to be used by a Saudi Arabia billionaire. That's totally uncalled for, totally unfounded.

Senator ZORINSKY. That was a low interest loan.

Mr. O'CONNOR. Yes, and we can use low interest loans in this Nation quite well today.

Senator EXON. Department of Energy took away the money that they could have used for a legitimate plant.

Mr. O'CONNOR. Another part of our major export today is delivering product that will equal the quality of other exporting nations. We have temporary storage facilities that will ultimately result in more out-of-condition grain in the future. Those pictures I gave to you distinguished people here today strictly show what has happened in my own county, whereby there are four of these such bunkers, if you want to call them that, that are constructed of merely plywood, grain placed on the ground. Four hundred bushels in each one of those that you are shown there, and they're in my own county which brings 1,600,000 bushels of grain that's going to be stored in the county.

Senator EXON. These are three separate facilities, Ralph.

Mr. O'CONNOR. Those are three pictures of two facilities in Grafton, NE. There's one in Geneva, NE, and there's one in Fairmont, NE. There's four separate facilities. If you'll look closely at those pictures, you'll see where they are blowing this grain. Now what type of quality commodity are we going to have when this comes out of this said bunker? It will be absolutely no good. There will be one place for it to be used and that will be to put it through the ethanol field.

Under present agricultural conditions, any individual or corporation producing an edible product for consumption by humans or livestock is facing extremely difficult financial challenges. It may be only a matter of time before even the best financial managers in the agricultural sector will be facing bankruptcy. In the end, even they may be prime candidates for the cheese and bread lines.

A great number of problems in the present farm program needs the immediate attention of both the U.S. Congress as well as the executive branch if the agricultural industry is going to move forward in an orderly fashion.

Offhand, I suggest the Federal Government initiate a rapid write-off program for on-farm grain storage facilities similar to the program that was in effect during the 1950's. The reason for such a program is that the return on initial investment occurs in a very short period of time. It would also place the grain in a position where a producer could utilize it through his own farming operation. It also would improve the quality of the grain for the simple reason that every time you move any agricultural commodity such as corn, wheat or milo, you decrease the quality and the end result is a lower quality product being offered on the world market.

The present construction of temporary storage facilities, sometimes known as bunkers, prefabricated and erected from nothing more than an all-weather plywood material and covered with a plastic tarpaulin leave something to be desired.

I'll probably have a lot of opposition to this next statement, but I feel very much concerned about it and I think it should be given very serious consideration.

Another major problem in the program is the $50,000 limit that is placed on farmers. I realize that abuses have occurred under the past programs. Loans in the present program have nothing to do with the $50,000 limit. The loans themselves are not included in the $50,000 limit. The deficiency payment is the only item under the $50,000 limit. In a recent article, a USDA official said, "All of the payments over the limit of $50,000 must be justified by local officials before they are cleared from the surveillance file." I question what kind of clearance is available in one section of the Nation when it is totally impossible to get the same consideration in other parts of the country. It is impossible for us to do that.

The $50,000 limitation has its merits but there are certain elements that should be considered in making the decision as to what constitutes ownership. For example, what about family corporations where more than one stockholder or director is involved? At this time, I would like to have the privilege of leading you through a bona fide example of a small corporation in Fillmore County, NE, my home county.

First of all, it is owned by four stockholders from two different families. The corporation was formed for the sole purpose of estate planning and at the present time consists of ownership of real estate. The farm is operated by the family corporation and land is leased from the parent stockholder for the sole purpose of operating the farm in a more efficient manner.

This farm in the 1986 program has 650 acres of corn with an established yield of 125 bushels per acre, and also 200 acres of wheat with an established yield of 38 bushels per acre. The total acreage for the year of 1986 production is 850 acres for both commodities.

You take the 650 acres of corn with an average yield of—guaranteed yield of 125 bushels. It gives you 81,250 bushels of corn. The deficiency payment in cash would be as follows: You multiply that number of bushels at 63 cents, which is the top deficiency for corn, would equal $51,187. On top of that you add 200 acres of wheat at 38 bushels per acre, which is the average yield on this farm, it gives you 7,600 bushels of wheat. Multiply that by a top figure of deficiency of $1.38, and that's in Fillmore County, and it gives you $10,488. Therefore the total feed deficiency payment of the feed grain, plus the wheat, comes to a figure of $61,675.

In this case, this family corporation has been penalized $11,675 simply because of the $50,000 limitation, and simply because they incorporated for estate planning.

In this case, where the stockholders have pooled their resources for items such as the land that was cash rented to the corporation for operation purposes only to make it a more efficient operation, should be entitled to a total not to exceed $200,000 for deficiency payments that would be available to this operation for the 1986 crop year.

By comparison, if corporate officers or directors manage the corporation rather than stockholders a different situation exists because this does not constitute ownership of such property in the combined operation as set forth in the above example.

To simplify the eligibility of stockholders, you simply have to list them with your local ASCS office. In fact, in this case, the local office already has these names on file.

In closing, I want to say this, I think we have a very important road to hoe. Our program today is a disaster. We can no longer operate in the future like we have in the past, in 1986.

How do we correct it?

First of all, we've heard of stories about mandatory controls. I'm a firm believer in mandatory controls. We're going to have to have it.

Another thing we should be doing, by all means, is to build more alcohol plants. Let's build more plants. Let's build them to utilize our own production, and not worry about Saudi Arabia, not worry about the imports of oil. What are we going to do in a national disaster? What are we going to do in case we have a world war and have our main jugular vein of our supply of oil cut off to this Nation? We need a reserve.

When we are using up 70 cents a bushel—you can take the figure from 50 to 70, 75 to 80, that it costs every year to store this grain, why aren't we using it and putting it through the alcohol industry and burning it on the roads to our highway program. Let the motoring public take care of our fuel. And it's a very critical situation. We can store grain, like we're doing today. What are we going to do when it goes out of condition? We're going to have to utilize it.

These bunkers that you have before you, the pictures of them there, are simply a case where farmers cannot afford to do this. He doesn't have a supply of grain on hand to blend it off with good grain, ship it down the river to the Gulf of Mexico and, in turn, send it overseas. We don't have that. We've got to deliver the type of grain, we've got to deliver the grade to put under loan. In this case, a commercial warehouse can store grain at 26.5 cents a bushel, the same as he stores in the picture of the elevator in the background of one of those bunker pictures and, in turn, get the same price out of that grain and reap the profit off. There's no taxes involved in that structure. It's nothing, only a bunch of burned up material that can be pushed in a pile and set a match to, and it's done, so there's no future taxes in it. I think, myself, we need a fast writeoff on equipment, storage bins that we can put this grain inside, and then make it available to the ethanol industry, make it available to the plants that are exercising their option to make this grain into alcohol and utilize it. As long as it's 200 proof alcohol, the old story says, "If it's 200 proof, we drive the best, we drink the rest."

Thank you very much.

Senator **Zorinsky**. Thank you very much, Ralph.

Senator Exon, do you have any further questions?

Senator **Exon**. Mike, on your projection here, you're showing that as of now, on the average land prices that you have established here, which look in line with me, from what I understand, there's no problem with cash-flow?

Mr. **Dunn**. No, Senator, there probably is a problem with cash-flow, depending on what the condition of that individual may be. If that individual has been able to get a loan at 9 percent, there is probably no problem with cash-flow. We're assuming they had a 30 percent downpayment on this land.

Senator EXON. Thirty percent downpayment at 9 percent.

Mr. DUNN. At 9 percent.

Senator EXON. But by 1990, if we drop to $2.20, we're right back into trouble again, right?

Mr. DUNN. Yes, sir.

Senator EXON. What you are saying is $2.42 is the area where we don't dare go very much below or we're going to have the so-called healthy farmers in big trouble, which means that we can't have a farm program that keeps dropping this loan rate.

Mr. DUNN. I would say, Senator, that once you get below a $2.35 level, that's about your break even there.

Senator EXON. Another question: I keep reading in the paper that the Farm Credit System says they are not going to need a bail out from the Federal Government. Do you still believe that that's true?

Mr. DUNN. I believe you're hearing that from the Farm Credit Administration, Senator.

Senator EXON. Yes.

What do you think?

Mr. DUNN. Senator, I can only tell you what we see here in our district, and last year we received a bail out from the rest of the System of $177 million from the Federal land bank. We've received over $150 million this year. As far as we're concerned, we're already receiving assistance from the rest of the System.

Senator EXON. I'm talking about the—can you tell me what your advice would be to me when people ask me, "Are we going to have to bail out the Farm Credit System" and I keep telling them, "I think so." I'm not talking about just yours. What is your view of the whole System? Are they going to have to come into Washington for some money under the bill that presently exists that allows the Secretary of Treasury to grant that?

Mr. DUNN. I would say that under the present bill, which allows for a line of credit for the Treasury to the Farm Credit System which requires appropriations from Congress that, in my estimation, appropriation should be discussed early in 1987.

Senator EXON. Should be discussed early in 1987.

Thank you very much.

I have another question or two.

Bud, you had a lot of experience inside and outside Government. What is your offhand view of where we are right now? Do you believe that a 9-percent interest rate, that an average farmer would be plus 30 percent, as Mike had it figured out here, or are you familiar with his figures?

Mr. RIBLETT. I wasn't familiar with them until I heard them a minute ago.

I'm of the opinion that 9-percent interest is kind of a heavy load for farmers to carry when you have declining land prices and, also, declining prices for your product.

We have scaled down our interest rates in the bank as far as we could and still keep in business. But until we get some lower interest rates in regard to the cost of production, the farmer is going to have a tough time trying to develop a cash-flow. I don't know how

I'm going to develop a cash-flow for 1987 for our farm customers and show a positive return.

Senator EXON. Ralph, keep up the great work on ethanol. You do a good job, and you're a great chairman, and I appreciate the assistance.

Is this wheat piled up here?

Mr. O'CONNOR. That's corn.

Senator EXON. Where did that come from? You haven't harvested that yet, have you?

Mr. O'CONNOR. That's last year's corn that's put under loan. It's hauled in there and put into a 3-year reserve. In fact, you're looking at 80,000 bushels of my grain in one of those piles.

Senator EXON. This is last year's corn?

Mr. O'CONNOR. Yes.

Senator EXON. Scarry.

Thank you very much.

Senator ZORINSKY. Congressman Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

I just noticed in the paper this morning that five western Iowa banks are providing $20 million, at least, at a 9.9-interest rate, and it doesn't specify the nature of the—the length of the loan. With the discount rate falling, I hope we can see some rather dramatic movement in the reduction in interest rates.

I want to thank all of you for your testimony.

Mike, I need to spend some more time with your testimony but it's valuable to have it spelled out this way, and I appreciate your doing it.

You had a very specific comment, Mr. Riblett, about the land and the fence-row-to-fence-row possibility, and the cash-rent arrangement, I think, is a very good one for us to consider, and I appreciate you taking the time to come in today and deliver it to us. I guess I would just say——

Mr. RIBLETT. Congressman——

Mr. BEREUTER. Yes.

Mr. RIBLETT [continuing]. You alluded to a 9-percent interest rate.

Mr. BEREUTER. 9.9.

Mr. RIBLETT. 9.9. I think that is a real estate loan that banks are using for this intermediate term of trying to help out in the real estate lending program. Banks generally don't make real estate loans. But we had such a heavy demand, and I think that program you're alluding to is a 9.9-percent interest on a 15-year amortization rate at a 5-year turnaround, and then there's a clause in there that each 5 years it will be reviewed and can be renewed for a 15-year limitation.

Mr. BEREUTER. It does not specify those details. It may be. All I know is what I read about it here.

Mr. RIBLETT. That may be, I don't know.

Mr. BEREUTER. But the discount rate has fallen rather dramatically by a half percent.

Mr. RIBLETT. Well, the prime rate, as you know, dropped a half percent again, so we——

Mr. BEREUTER. Mr. O'Connor, your testimony is very valuable and I hope I can also interest you—and perhaps you're well ahead on this—about the loss of the potential for ethanol as an octane enhancer as the petroleum industry incorporates BTX's, benzene, which comes out of their process which is carcinogenic and, of course, we have the advantage in an ethanol production in a safety and soundness kind of way.

Do you have anything to mention in that specific area?

Mr. O'CONNOR. Well, I think you've got to look at it this way. The industry does have NTBE—don't ask me to pronounce it. It's a word about as long as from here to you, Congressman. It's an octane enhancer, and it costs money to make it. It is not available at the price equivalent to what ethanol would be, but it's their own product, and they are pushing that to a degree as an octane enhancer to build it up, 2-point-some-odd percentage. And, in turn, nobody can deny it. There's—other petroleum companies have it. But the thing about it is this, we have to remember the largest user of any petroleum product is agriculture. If agriculture is going to be healthy, we've got to have a product—we've got to utilize our own product. We've got to build it; we've got to grow it; we have to utilize it, so why not turn it into alcohol. And the oil companies have got to the point where they realize it. Now we only have three or four that are backed off—a big sign up on their station, "There's no alcohol in our gasoline." But remember, Standard Oil, Amoco that has a fuel they call ultimate gas is priced at 13 to 14 cents a gallon above ethanol blended gasoline in Grand Island, NE. Now anyone with good commonsense that has used ethanol blended fuel which is that much cheaper than the price of gasoline when they drive up to fill their tank automatically know that he's not going to burn a fuel that's going to cost him 13 to 14 cents more, so the——

Mr. BEREUTER. I understand your point. I just wanted to make the point about the octane enhancer which we're using now to the petroleum-based substitute which has proven to be dangerous.

Mr. O'CONNOR. We're using it. You're correct, we're losing by putting in their own NTBE, that's right, and I don't know what we can do to offset it.

Mr. BEREUTER. Well, we can do it legislatively.

Mr. O'CONNOR. What can we do legislatively?

Mr. BEREUTER. I say we can do it legislatively. We can stop the use of a dangerous product and at the same time help our corn producers.

Mr. O'CONNOR. You know, Congressman, I've heard a lot of testimony here this afternoon and that's one of the best words I've heard all afternoon in this room, "We can do it legislatively", and I hope it's done.

Mr. BEREUTER. Thank you very much.

Senator ZORINSKY. Mike, is it still true that the Farm Credit System would like to see us open the lending window before we adjourn this year or can you wait until next year?

Mr. DUNN. The Farm Credit Administration tells us that we can wait until next year.

Senator ZORINSKY. What are your views?

Mr. DUNN. Well, Senators, you're well aware of the way the 1985 act was stated is that request must come from the Farm Credit Administration. All we can do is supply to them our facts and our figures, and then that's based on them to make their recommendation to go to Treasury.

Senators, I would also implore you to take a look at Senator Cochran's bill which would allow us to be able to set our own interest rates here in our district. I know of no other product where the managers and the board of directors cannot set the cost of their product. We feel that we're charging too much for interest rates right now in the district and we would like to be able to lower those.

Senator ZORINSKY. Well, that's like the question of which came first, the chicken or the egg? Is the denial of the loan window right now forcing you out of the market——

Mr. DUNN. Yes, sir; it is.

Senator ZORINSKY [continuing]. Because of higher interest rates. You feel it is a problem with interest rates?

Mr. DUNN. It is. We are uncompetitive now for insurance companies, if they are making loans in an area. We are uncompetitive with them. But, unfortunately, there are many people that do not have the luxury of being able to leave our system to go somewhere else, so we have a captive audience in there that are also being held.

Senator ZORINSKY. Plus, I assume, when your rates are too high, then even your good credit customers leave to go elsewhere which means you have to make up additional costs of doing business from the customers that are already in trouble with their payments.

Mr. DUNN. That is correct, Senator. I think it's a lot like that analysis you make of trying to get rid of those Hershey bars. We would like to get a whole bunch more of those Hershey bars out there so we could bring down the price to every body.

Senator ZORINSKY. Ralph, I certainly support your views on converting surpluses to ethanol and you keep up the good work of trying to spread the gospel. I am concerned about people that lately have been reading these obviously unknowledgeable comments concerning the economic infeasibility of the equation that must exist to convert surplus grains to ethanol. It's as if these people think that we've locked into $15 a barrel forever. I can't conceive of them being that shortsighted. If this country ever puts all of its eggs in that basket, of thinking that we resolved our energy problems, we'll never have a consistent foreign policy, not until we are energy independent. When that happens, then we can have a foreign policy but it all backs up to that. Certainly I support utilizing whatever surpluses we have in that direction.

Thank you, gentleman, for being here.

Now, we'll call the last panel. Frank Wickett, a farmer from Laurel, NE, John Hansen, a farmer from Newman Grove, NE, Delbert Niewohner, a farmer from Albion, NE, and Denny Wilkins, a farmer from Kennard, NE. Will those four gentlemen please come forward?

Does Frank Wickett want to lead off?

Mr. WICKETT. I'm going to get right to this. I'm just going to start reading my deal here.[1]

---

[1] See p. 156 for the prepared statement of Mr. Wickett.

Senator ZORINSKY. That's the way to do it.

STATEMENT OF FRANK WICKETT, FARMER, LAUREL, NE

Mr. WICKETT. My family and I milk 45 cows with 100 head of dairy stock that feed every day. We have 15 sows that we farrow and market, about 240 fat hogs a year. We also have 530 acres of land to farm. On some days things are left unfinished.

My farm is rented by sharecropping. It is in the state of decay. You may wake up in the morning and another fence post is broken off due to rot; the barbed wire is rusty; it snaps with the slightest pressure from an old cow. I know better than to ask the landlord for money to repair things.

The other farm I operate is rented sharecropping, too. It has completely decayed away. In another 2,000 years you can call it the new brea tar pits. The 1985 farm bill has put my landlord's grandmother on welfare, dandy. The 240-acre farm and her savings have been supporting her meagerly for 10 years, but now in 1986 it's—well, I won't use that word. Well, even with the past farm bills, I don't have a grain bin on that farm to put the 1986 crops in, and all of the bins in town are full.

My main source of income is the milk I sell. The milk price is being affected by imports. The AMPI Dairyman Digest article said, "Gasein imports run rampant during 1985." They printed that there was 248,000,000 pounds, a record level, and were equivalent to 85 percent of the nonfat dry milk purchases by the Commodity Credit Corporation." Therefore, in my opinion, the taxpayer is subsidizing dairy farmers in foreign countries. I also maintain that if foreign imports were stopped, the U.S. dairy farmers cannot feed the American people.

Senator EXON. You're looking at me. I don't know what you're trying to tell me.

Mr. WICKETT. Anyway, on we go. I'm sorry.

Senator EXON. I'll ask you in the questions. I don't like people looking at me when I don't know what they are accusing me of, especially when I voted for every damn program that you've ever put up, but I'll give you a chance to explain yourself.

Mr. WICKETT. There would be a short-term shortage of magnitude. The American consumer and the U.S. Government have to be convinced that it is OK to have a food or milk reserve, and the dairy families get 100 percent of parity for their product. This will maintain their economic well-being in the food chain.

These milk imports are not to be scoffed at; 248,000,000 pounds is equivalent to 2.48 million pounds of off farm liquid milk. It puts 8,000 dairy farmers out of business with 300,000 pounds of milk production a year. Now that's a small farm. Now a farm like mine of 45 cows, it puts out 4,800 dairy farms like mine out of business. Does the USDA and the Reagan administration really know what they are doing? It is plain to see they need political guidance.

Because we have a milk surplus due to imports, in part, it doesn't justify society to lower our farm prices for its gain. The surplus can't be used as a whip to drive dairy farmers out of business. It is a capitalistic system but needs to be moderated by a democracy. Under present policies, milk product disappearance is taken up by imports.

I want to commend every Senator and Representative and their aides in stopping Masstock Corp. from going into Georgia. I maintain if there is a need for milk in that area, and so much profit in dairying, the bankers can loan money for new start-up facilities to farmers.

Congratulations are also in order for tariffs on live hogs and a new tariff on the foreign packaged part would wrap it up.

I'm going to leave the comments on the 1985 farm bill out, except I would like to go to No. 7. The 1985 farm bill didn't help my brother-in-law; the bank foreclosed on him. The 1985 farm bill didn't get my 1981, $12.95 grade B price levels back. My calculations right now, it's $10.42, and includes the dairy herd buy out at this time. This is a 19.5 percent loss of income.

Congress should take a hard look at conglomerates in relation to farming. I maintain there is no competition before the farm or after the farm. Cargill owns chemical companies, Ciba-Gige; they sell high-priced herbicides to farmers. Ciba-Gige owns Funks Seeds. Funks sell high-priced seed corn to farmers. Cargill also sells its brand of seed under the Cargill label $1 or $2 near Funks' price. Where is the competition and free market at?

Another example, Continental Grain owns Wayne Feeds. They sell high-priced pelleted feed for cattle and hogs. Con-Agra owns Armour. They pay cheap prices for cattle and hogs which consume their high-priced pelleted feed. The farmer has all of the risk. These corporations and Chicago Board of Trade don't care what the farmer receives when he sells his grain, his hogs, or his cattle. All the multinationals have to do is handle the movement of insecticides, fertilizers, herbidices, corn seed, and animals going to the farm and off the farm. Conglomerates are not aggressively competitive in the marketplace. The practices of these farm related conglomerates makes prices low for the farmer selling, and prices high when farmers' buying occurs. The conglomerates need to be broken up into separate entities.

In general, I don't think a shortage of milk, meat grain, and other products in the world is the answer either. Higher prices shouldn't be obtained by shortages. We need a form of management to ensure profit and no shortages. Somehow, my farm in the U.S.A. needs a little surplus in a reserve so we can make it through a 2- or 3-year nationwide drought weather pattern. The administration is not looking ahead. Reagan is hiding his head behind a free market system hoping the food supply won't meet with doomsday. Free market theory isn't working in agriculture. My proof is bank failures, farm bankruptcies and farm demonstrations. There has to be a way for the farmer to make a good living, realize a profit, have a future, have money in the bank, grain in the bins, hogs and cattle in the feedyard, and milk cows in the barn. This way the consumer in this country as a society will have bread and cereal on the shelf, meat at the counter, and milk in the cooler. It is unconscionable to me that society goes along with the administration policies.

Some of us farmers believe that parity is a good word. One hundred percent of parity even sounds better to me. I would cut my milk production if I could get 100 percent of parity for my reward. Right now we are milking cows at 41 percent of parity, and about 62 percent parity for raising hogs. Free market corn at $1.35 is 25 percent parity. We say we need 100 percent of parity again and again, and again. This is just a number. Seven percent unemployment is just a number. Four percent inflation rate is just a number. Three point two percent growth rate in Gross National Product is just a number. A prime rate of 5.5 percent is just a number. If the Federal Government runs the country with these numbers and indicators, why can't the U.S. Government run the agricultural policies on the numbers, and one number they have used is parity.

Senator **Zorinsky**. Do you want to——

Mr. **Wickett**. I'll go right in the conclusion.

In conclusion, food production in this country is a complex system. Food is taken for granted. It is so cheap that they have contests with it. Some things I have said are incorrectly perceived by me but they needed saying. Farmers should get a fair price for their products and a good return on their investment. The consumer, the middle man, and USDA—after all disappearance of this 1986 crop, there will be only about 22.4 bushels of corn per person in storage, and 7.77 bushels of wheat per person in storage. It's not a lot in our reserve.

As of August 22, 1986, the Commodity Credit Corporation has 1 pound of butter per person in storage, 1.9 pounds of cheese in storage, and 3.3 pounds of dry powdered milk in storage. These reserves shouldn't be used to drive down our farm prices.

I thank you.

Senator **Zorinsky**. Thank you very much and, you are right, a lot of those comments need to be said.

John Hansen.

STATEMENT OF JOHN K. HANSEN, REPRESENTING MADISON COUNTY FARMERS UNION

Mr. **Hansen**. Thank you, Senator Zorinsky, Senator Exon, and Congressman Bereuter.

Thank you for the opportunity that you have given me today to appear before you, and thank you for the time and the consideration that you have shown the farmers in the State of Nebraska by holding this hearing in Lincoln. It's to your credit that you have done this.

I am representing the Madison County Farmers Union and myself here today. The impact of the 1985 farm bill is becoming increasingly clear to me as a farmer, a fertilizer dealer, an area seedcorn supplier, and a crop-hail insurance agent. The impact is unfortunately profound and negative. The many financial statements that I see during the course of my various responsibilities continue to deteriorate at an alarming rate. We are undoubtedly headed for financial disaster if, in fact, we are not already there.

I support as an alternative to our present policies, price supports set at a rate of a minimum of 70 percent of parity in conjunction with supply management provisions. We must remember that in order for farmers to provide the economic basis for Nebraska and our country's economy, there must first be profit for the farmer. If the farmer is making a profit, small business, agricultural lenders and suppliers, local and State governemnts, and the rest of the economy as a whole will do well. If, however, the farmer does not make a profit as is currently the case, we will continue to suffer and drift from one fiscal crisis to the next.

I would like to raise the question today of the conservation provisions of the 1985 farm bill. My background is one of 12 years of public service as an elected member of the Lower Elkhorn Natural Resources District Board of Directors. I have recently resigned my position on the board to run for county commissioner in Madison County, so I want to make it clear that I do not represent the Lower Elkhorn NRD. The LENRD has one of the most aggressive, innovative, and massive conservation cost-share programs in our State, so I have had much experience in the conservation and cost-share areas. My commitment to soil and water conservation policies that protect the long-term productive capacity of our precious soil and water resources, however, remains the same. It is this concern for both conservation and economic interests of farmers that causes me to become very concerned about the approaching deadlines contained in the provisions of the 1985 farm bill.

The deadline for the acceptable conservation plan is January 1, 1990, and the deadline for the implementation for those conservation plans is January 1, 1995. The penalty for failure is ineligibility to participate in CCC commodity programs. Most producers must participate in the commodity programs in order to survive economically. It is tantamount to the kiss of death to be denied entry into these programs. Producers must have acceptable land treatment on all their farm ground or their entire farm becomes ineligible. The economic impact of large numbers of farmers being thrown out of their ASCS offices would constitute a severe blow not only to the farmers but also their communities and States.

If we assume it is not the intent of the 1985 farm bill to have massive numbers of ineligible farmers, then we must take a hard look at what it would take to make is possible for these producers to meet the deadlines.

First, let us take a look at what it would mean in terms of conservation commitments to make things work in Nebraska. Nebraska currently utilizes in conservation cost-share dollars approximately: $5 million through federally funded ASCS ACP conservation cost-share programs; $2 million through the Soil and Water Conservation Fund funded by the State of Nebraska; $2 million through land and water assistance programs funded primarily by NRD's at the local level; $1 million through the Great Plains Program administered by the SCS and utilized primarily on grasslands; $0.5 million through the Watershed Program administered by SCS.

This constitutes about $10.5 million annually for the State of Nebraska. This is separate from the annual SCS operating budget of about $12 million, of which $8.6 million is used to service the statewide field offices that provide the technical service to farmers in order to accomplish the conservation work done in Nebraska.

In order to meet the 1990 deadline for acceptable conservation plans, we would have to double the budget and staff presently on board at SCS, or slide the timetable back about 5 years. Forty percent of the land in Nebraska presently has acceptable levels of land treatment, but almost all of this land would have to have conservation plans that would have to be updated or, at least, documented and approved in order to meet the requirements of the provisions of the 1985 farm bill. An additional 20 percent of the land in Nebraska has conservation plans in place but have not met all of the goals of the plans, so these plans would have to be updated and modified to bring them up to acceptable levels. The remaining 40 percent of the land has neither acceptable conservation plans or land treatment. We must also consider that this land will be the most difficult to devise workable conservation plans for.

Meeting the 1995 acceptable land treatment deadline will be much more difficult than meeting the conservation plan deadline. Assuming that local and State cost-share dollars would remain constant, ACP dollars would amount to approximately $55.5 million annually. If you figure a 75-percent cost-share rate, the annual federally funded ACP dollars that would be needed would be $42 million or between 7 or 8 times the current $5 million. This analysis would assume a statewide average of $100 per acre conservation costs. Given the rate of conservation treatment on land there in Nebraska, it would take 70 years, or until the year 2058, to meet the provisions in the 1995 deadline.

There are some technical changes in the ACP program and farm programs that must be made in order for any of these efforts to work successfully: One, the current restriction of $3,500 per conservation cooperator per year is unrealistic. We think of doing a quarter of a section of land at a time, which is what we must do in order to achieve additional levels of design, paperwork, and construction efficiency, at current costs, and the farmer runs out of cost-share money at 47 acres. Unless the $3,500 limit is raised, accelerated cost-share dollars cannot be fully utilized.

Two, the personnel and dollar freeze currently in place over SCS budgets should be removed.

Three, the conservation reserve should retire corn base acres based on the total row crop acres in an ASCS unit rather than just on corn base acres alone. Example, a 240-acre farm with a 100-acre corn base and 200 total acres of row crop; 50 acres would be bid into conservation reserve, one-fourth of the total row crop acres. This would return one-fourth of the corn base or 25 acres, leaving 75 acres of ongoing corn base and 75 acres of other row crop acres. This allows for badly needed flexibility in crop rotation in order to meet conservation plan goals.

Four, use the 1982 resource inventory survey instead of the 1967 conservation needs inventory for basing the SCS and ACP critical areas targeting dollars. Nebraska would pick up on a percentage basis more increase than any other State.

Five, put linkage between availabiity of SCS technical assistance and ACP conservation cost share dollars and producers. Then if the money or technical assistance was not available, the farmer could not be denied farm program eligibility.

I think that without going into further detail that it should be clear that deadlines must be changed, dollars committed to both the SCS and ACP must be drastically increased, technical amendments must be made, or a substantial number of farmers in Nebraska will not be eligible to participate in commodity programs.

But I would skip back to the back page where I suggest some of the technical changes that need to be made in the ACP and farm programs in order to carry out the goals of the 1985 farm bill in the conservation area. What I have done in the last two pages of my testimony is document, basically, the kind of dollar figures and staff level figures that would be needed in the State of Nebraska in order to meet the 1990 goal of having a conservation plan on each farm and the 1995 plan implementation deadline.

Basically, in summary of those two pages of testimony, what I found, based on my research and my 12 years as a locally elected public official in the area of soil and water conservation program is that, basically, we're going to have to double the amount of level of funding for staff for the ASCS in order to meet the 1990 goals of having a conservation plan on every farm in the State of Nebraska who wishes to participate in farm programs if we are to meet the 1990 goal, or we're going to have to substantially take that deadline and extend it out. In the area of meeting the requirements of the implementation, the conservation implementation of those goals on farms, we find that we're basically doing about 70 years worth of work at the rate that we've been getting conservation on the land in the last 3 or 4 years in Nebraska in 7 years. And what that is going to mean on the part of the Federal Government is an acceleration of the cost-share rates—cost-share dollars of about seven to eight times what we have been spending annually. Annually in Nebraska we have been spending about $5 million through the ACP cost-share program. In order to meet those deadlines, we would have to spend, approximately, $42 million. I base these projections in having worked with the Soil Conservation Service at the State level and other experts in the field, and I have run these figures by most of those people and all of those figures by my analysis pretty well.

So my specific recommendations would be: First, that the current restriction of the $3,500 per conservation cooperator per year limitation is unrealistic. I think of doing a quarter of a section of land, which is the kind of level that we need to be talking about in terms of being able to accelerate conservation practice in the State of Nebraska, and we find that given the cost-share costs of, approximately, $100 per year that it costs as a running average of putting conservation on the land in the State of Nebraska, we find that those cost-share dollars run out when the average farmer would do 47 acres, so the $3,500 limit is a severe restriction on being able to utilize on a larger scale those cost-share dollars that are available. Most farmers then either have to assume 100 percent of the cost themselves or wait until the next fiscal year. This takes away all of the added gains that are available and efficiency through large scale design, larger construction patterns, less paperwork, all of those kinds of things. We can put conservation on a quarter of land, if we can do it a quarter at a time, a lot more cheaply than we can if we have to take three or four runs at it. And unless the $3,500 limit is either substantially raised of just eliminated, we're not going to be able to really accelerate the cost-share program in the State of Nebraska.

Second, the personnel and dollar freeze currently in place over SCS budgets has to be removed. We have launched in the 1985 farm program the most aggressive soil conservation program that we have ever embarked on since the Great Depression, and at the same time we have in place budget and dollar restrictions over the ASCS which provides the technical assistance to be able to implement those goals. Right now, the dollar limitations are so severe that, in fact, they never even get up to the personnel limitations because they don't have enough dollars to even replace the number of personnel that they have retiring. They're barely able to maintain staff at this point.

Third, the conservation reserve. In order, in my opinion, to be effective, it should be modified. It presently retires corn base acres based on the total corn base in an ASCS unit on a 1-to-1 basis. So if you have—or the example I use, in the case of a 240-acre farm—or a 240-acre ASCS unit with 100-acre corn base and 200 total acres of row crop in that base—and that would not be an untypical situation in my home county of Madison County—50 acres, if you would bid that into the conservation reserve today, 50 acres of corn base would be removed. My suggestion would be—is to take that conservation bid and make that a percentage of the total row crop acres in the ASCS unit, so you would retire instead of, in that particular example, 50 acres of corn base, 25 acres of corn base, and then allow a normal crop rotation program, and the remaining acres left in that ASCS unit. That rotation option is critical in order to be able to meet the soil conservation goals that we said we wanted for them by 1990. What you have left in Nebraska when you take away corn as a row crop option is soybeans. Soybeans are much more erodible than corn, so then we retire this erodible land, take away with it the corn base, and then go out and say, "You have to grow soybeans year after year in what is left," and that is the most erodible crop, so there needs to be some modification, in my opinion, in order for that to work for the State of Nebraska.

Fourth, we need to update the basis by which we designate soil conservation and ACP critical area dollars. We are currently using the outdated 1967 conservation needs inventory and we should be using the newer 1982 resource inventory survey. By implementing that newer survey, Nebraska would on a percentage basis gain more cost-share dollars for the State of Nebraska than any other State in the Union. And I'm not sure why that's not being done but it should be done because Nebraska is, based on its conservation needs, a more critical area than our other States with less conservation need.

Fifth, put linkage between availability of Soil Conservation Service technical assistance and ACP conservation cost-share dollars and products. That is to say, that if a producer comes into his ASCS office and we're going to say to him, "In order to be eligible to be in the program, you have to meet these goals." We're also saying to him, "That if we don't have the technical assistance and we don't have the cost-share dollars available for you in order to meet those goals, we aren't going to kick you out of the program." The rough seat-of-the pants estimates that I have, the number of producers in the State of Nebraska that would be declared ineligible for commodity program participation with the implementation of these deadlines in this bill without either easing those deadlines or accelerating the units necessary to meet those goals, because about half the producers in the State of Nebraska will be thrown out of commodity participation. That is an incredibly negative and large-scale economic impact. I say in my testimony that it's tantamount to the kiss of death not to be eligible to participate in that program.

It used to be we had the carrot and the stick. The Reagan administration has developed a new theory. It's called the stick and the sledge hammer, and it is only by way of looking at the sledge hammer that the stick looks good. While being in the program isn't good, it's better than taking an even worse beating out in the open market.

So, my summary paragraph says: I think without going into further detail that it should be clear that deadlines must be changed, dollars committed to both the SCS and ACP must be drastically increased, technical amendments must be made, or a substantial number of farmers in Nebraska will not be eligible to participate in commodity programs.

I would like to conclude my formal testimony at this point, and will be willing to answer any questions you might have later on. Thank you.

Senator **Zorinsky**. Thank you, John.

Mrs. Niewohner, would you like to make your comments?

STATEMENT OF MARILEE NIEWOHNER, ALBION, NE

Mrs. **Niewohner**. My name is Marilee Niewohner. I'm the wife and mother of the people who I will be talking about.

I would first like to thank this committee for allowing us to address it on problems and issues facing today's family farm in the present farm economic environment and, in particular, the family farm my four sons and my husband are managing jointly and severally.

We would like to address this committee on several important issues and, in particular, the 1984 farm program and its unjust limitation of $50,000 payments to any one—I repeat, one farming operation.

First a few notes of explanation. Our four sons, ages 29, 27, 24, and 19, just beginning their lives and families in the farming community, and my husband, a longtime farmer, have joined in what is known as a partnership, a family farm partnership. Each one of my sons and my husband own, approximately, 700 acres of farm real estate. The successful management and efficient operation of each individual's farm ground being the reason for the joint aspect of each's contribution. One set of equipment to operate a 700-acre farm would place an undue burden on any young farmer's operation, especially when one set of equipment can be used by five. Efficiency goes way up and cost per individual comes down. Would anyone fault any prudent businessman engaged in any business from applying the same techniques to whatever enterprise they may be engaged in? No.

Then why is this family farm, in particular—and from what we have heard in other testimony, there are other situations—why is our farm being discriminated against in employing techniques every successful business would employ? Each of us, my four sons and my husband, pay for their fifth of everything, seed, fertilizer, fuel, land payments, interest, repairs, and so forth. Each collects his share of the profits. Each is solely responsible for the successful operation of his real estate contribution to the partnership. Each hires and pays for help to accomplish this, and each is liable for the liabilities accrued by this combination—or in proportion to his involvement.

Now the corporate involvement. Six years ago our sons purchased an operating feedlot under the corporate name of Niewohner Bros., Inc. Approaching that time, when my husband felt his involvement in the farming farm needed to decline, he did not become involved in this purchase. This business arrangement, as defined to us under State statute, is considered in legal reality as being an entity manifesting all legal rights unto itself; liable for its liabilities, due its profits, capable of being sued and capable of suing, a pseudo person, and this is how it is considered in this purchase.

Each son's involvements in this corporation is over 20 percent, and is in no way mixed with the partnership as described earlier. The corporation resides in a different county, Antelope County, and is under a separate ASC office in Neligh, NE. This corporation purchased this feedlot, equipment, and associated 360 acres as an operating business. It has its own equipment, own financial arrangements, pays for its own expenses and collects its own income. All equipment, labor and so forth is provided by each of our four sons and hired locally, and is compensated for by the funds of the corporation alone, all of which is accomplished at fair market value.

Again, this seems a perfectly honest and prudent method of separating the two businesses as well as providing a steady market for our sons, and my husband's farm products. The successful operation of other feedlot under a similar method proves the latter to be true.

Knowing all of this, I would like to know where the justification is in the Federal Government, under the guise of the ASC bureau, trying to break these young farmers through the use of a rule with a multitude of possible interpretations? Is not every family farm different? How can you categorize every case in black and white, especially when there are so many shades of gray.

Our local ASC committee tells us that our operation qualifies for $50,000 for each of our sons and my husband's own farming operations. The State ASC committee says it does not. Who is the local farmer to believe? Five months after applying ASC 1985 farm program guidelines on the advice of the local ASC offices to our farm ground, we are told the Federal Government will not honor the agreement which we had already honored in good faith, so each of our sons has 150 acres setting idle, no crop, no income. Do you suppose their lender will accept no payment?

Can you imagine our sons getting by with applying these practices to their lender?

With Federal Land Bank's interest over 13 percent, and the State raising land values about 20 percent for tax purposes, despite a land market value decline of over 50 percent, how close to disaster does the ASC office, hence the Federal Government, want to push us and a lot of other American farm families' operations? Is this its goal, to push the family farm out of existence? I honestly think not.

We have two suggestions and one request concerning what we have just related to you.

No. 1, a revision of this $50,000 limitation rule to provide against discrimination against the American family farm, the most efficient businessman in today's business world.

No. 2, state such a revision in clear language and concise enough for local ASC committee people to accurately interpret.

And my husband's request, a real reevaluation of our son's and our own family farm's particular case on its individual merits.

We have other concerns in our report but most of them have been mentioned through the day.

High interest rates. I would like to know where the justification of high interest rates comes from. Why is it the responsibility of those good farmers remaining to make restitution for all the bad loans banks and especially the Federal Land Bank have made in the past? It seems the American farmer is being strapped with an unfair burden, that is, interest rates so unfavorably high, as compared to other industry.

Concerning the Farm Program for this coming year. We do in fact need to cut another 10 percent, but don't saddle nonfarm businesses with a 50-percent set-aside like a few years ago. And how can a set-aside program allow harvesting of the cover crop? What is supposed to be accomplished by this rule? A cover crop definitely, grazing maybe, but only to prevent erosion.

Sealing of corn. Let the American farmer put his product on the open market. To be fed or shipped overseas. When will the Federal Government understand that the most efficient businessman in the world, the American farmer, could do a much better job of controlling his product's market than any bureaucracy? Pay the farmer a certain amount not to seal his crop, and in the future he will make his market pay him what his product is worth through voluntary cutbacks.

Also, taking investment credit off livestock was an idea whose time had come. But taking it off equipment only hurt the manufacturing industry. Again it seems Federal involvement hurt more than it has done any good.

In closing, we hope something can be done on our personal request concerning the $50,000 limitation rule for our four sons. Until this time, they have amply proven themselves capable managers and operators of America's most valuable commodity, the family farm. We would certainly hate to see their work, and the work of many other young farmers killed by Federal bureaucratic involvement.

Thank you.

Senator EXON. Mrs. Niewohner, thank you very much. We will have some questions.

I have heard of a lot of unfair application of the $50,000 limit all over. We've worked on lots of these. I've never heard of one that looks more out of line than this one. Maybe we can—we'll get into questions.

But now our last witness—I want to move to him now and give him a chance—Dennis Wilkins, would you proceed, please?

Mr. WILKINS. I have a chart over there that I asked them to put up so the audience can see it.

Senator EXON. We can put it up on the easel here if they can see it that far back.

Mr. WILKINS. You have a copy, you have the original.

Senator EXON. Yes, it's on the bottom of your letter here.

Mr. WILKINS. It's on there also, but this is for the audience. I don't know if it's big enough for them——

Senator EXON. They can't see it from back there.

Why don't you take one of those easels up there a little closer. Just move it right up there so they can see it.

STATEMENT OF DENNIS R. WILKINS, KENNARD, NE

Mr. WILKINS. I am a farmer in Washington and Douglas Counties in Nebraska, and I'm presenting this as a case for supply management to replace the the market oriented farm policy of the 1980's.

As I was reading an article in a recent issue of the Omaha World-Herald, and looking at the accompanying table entitled "Federal Farm Expenditures," I realized how much more is involved than the figures themselves and what story lies behind them, weather factors, exports and administration of farm program policies are all influential in the costs and results of these Federal expenditures.

The chart of costs appeared in an article in which Secretary of Agriculture, Richard Lyng, commented that an ocean of corn rising between the Appalachians and the Rocky Mountains will cost the Federal Government $10 billion in subsidy payments this year. This is an understatement as a $25 billion projection will probably fall short of the $30 to $35 billion figure that has been presented based on more recent crop forecasts.

My comments will be directed at the feed grain portions of the Federal farm expenditures.

One point I want to emphasize is that agriculture is not like an automobile factory where a specific number of parts and a certain amount of labor is sure to produce a certain specified output. Agriculture faces many variables, such as weather, chiefly rainfall, wind and hail, disease, and insects which determined its output. The same input costs may result in a wide range of output. Personally, I've experienced yearly average corn yields of all of the way from 14 bushels per acre to 145 bushels per acre. The lowest cost per unit of production will be at the upper end of the yield range. Industry and OPEC, in particular, are good examples of using supply management to maintain their prices and, therefore, profitability. Recently OPEC has not been controlling their supplies, and you can see quite easily what it has done to their prices.

Farmers, as individuals, want the lowest per unit cost with the highest levels of output to maximize profits. However, when agriculture as a whole increases output, prices are depressed unless that output can be marketed. This is what Reagan's market-oriented policies have failed to do.

FEDERAL FARM EXPENDITURES

[Billions of dollars]

1971	$2.82
1972	3.98
1973	3.56
1974	1.00
1975	0.57
1976	1.01
1977	3.81
1978	5.62
1979	3.57
1980	2.72
1981	3.99
1982	11.60
1983	18.76
1984	7.18
1985 *	17.68
1986 **	25.00

* Estimate.
** Projected.

Looking at the table, the very first point you note is that during the 1970's and the very early 1980's costs were very low in relation to what happened in the 1980's. It is a matter of fact that agriculture was prosperous in the 1970's but sank nearly to the levels of the 1930 depression situation during the mid-1980's. Therefore, we can see that we are spending more with poorer results under the current policies.

The second point is the influence of drought years and farm program policies on the costs of farm programs. Drought years considerably reduce the output which, in turn, increases prices and cuts required farm program costs. During the following drought years of 1974, 1978, 1980, and 1983, less money was spent on Federal farm expenditures. Supply control does reduce the cost to the Government and it does increase prices.

Another point is the lack of supply control in the 1980's as we had had in the set aside and idle acres of the 1970's. These were eliminated when we needed full production to meet export demand. In the early 1980's falling exports and lack of supply control increased supplies again. Specifically, in 1980 and 1981 there were no idle acreages. In 1982, there was a required 10-percent set-aside. Supplies increased, so in 1983 a large amount of money was spent on the PIK Program along with dry weather which considerably reduced the supply of grain and increased the price, and it reduced the cost of the Federal farm expenditures.

You can see from the chart you have up here on the left how it dramatically reduced our supply of grains, and from the chart over here [indicating] on the farm expenditures, it cut the expenditures nearly almost to one-third of what they were the year before.

After 1983, continued pressure by the administration away from supply control and toward market-oriented policies and the resulting failure of exports have added to the supplies which, in turn, decrease prices and increase the cost of the farm program.

One of the biggest and best things that could be done in regard to exports, in my opinion, is to raise the grain quality standards;

however, the large grain companies don't have much incentive to change that because it is pretty profitable the way that they can blend their grain, and their standings are considerably different from what the farmer sells to them at.

As an old saying advises, an ounce of prevention is worth a pound of cure. Money spent earlier for supply management increases prices and reduces the amount having to be spent later by the Government for farm subsidies.

There are also many costs to be considered other than the direct expenditure of dollars, such as bank failures, farm and agribusiness bankruptcies, income tax losses to the Treasury from the failure of farmers to have to pay any income taxes, and recession in farm equipment manufacturing and a general overall reduction in the prosperity of the agribusiness sector.

I believe that our country is far better off with a prosperous agriculture, one that utilizes many farmers, rather than having just a few large farmers. Agriculture is one sector of our economy which is very productive. The country should be grateful and proud of it, and should manage supplies so that the producers are rewarded and not punished for their productivity.

This concludes my testimony.

I would like to thank you for being here to testify.

Senator **ZORINSKY**. Thank you, Mr. Wilkins.

I would like to call on Congressman Bereuter for any closing remarks.

Mr. **BEREUTER**. Thank you, Ed, I have to get into a car and start driving or I'm really going to be late for the next one.

I want to thank all of the panel for their excellent testimony. It's very helpful.

John Hansen, I thought, in particular, your specific recommendations about the ACP reform programs are very helpful and right on target.

Ed, I want to thank you for chairing the hearing here in Nebraska so that we could hear the testimony today. It was extremely helpful. I thank you for letting me be included.

Senator **ZORINSKY**. Thank you.

Mr. **BEREUTER**. The Center for Rural Affairs has a proposal I think is interesting. They would like to have it included in your record.

Senator **ZORINSKY**. Without objection, their statement will be entered in its entirety.[1]

Senator Exon, do have——

Senator **EXON**. Thank you, Ed.

Well, this is the last panel but it has been a very interesting one and I appreciate all of the constructive suggestions, thoughts, and problems.

Ed, I think you had to leave for just a few moments. We had—Mrs. Niewohner who came up with what is one of the most classic unfair decisions that have been made up there regarding four sons who—you said each had about 700 acres, is that right?

Mrs. **NIEWOHNER** [nodding head].

---

[1] As of press release the statement of the Center for Rural Affairs was not received by the committee.

Senator EXON. And they put them all under the $50,000 limit.

We've had all kinds of cases where farmers have wanted to split up the land that they previously held to 13-year-old daughters and 17-year-old daughters, and I can understand why that was ruled out.

Let me ask this question about your case: What about in previous years? Were you in the program in previous years?

Mr. NIEWOHNER. We were in the partnership. Up until the last 2 years, the corporation wasn't because we fed all of the corn. But it's got the price of corn so low now, we did go in this year and that's what got us into trouble.

Senator EXON. In other words, you went into the program relatively recently, 2 years ago?

Mr. NIEWOHNER. With the corporation. Otherwise the partnership has been in and it hasn't caused no problem.

Senator EXON. I see.

Had you had been in before, you would undoubtedly have been in under four separate farms and you wouldn't have a problem now. In other words, you're being penalized because you weren't in the program earlier, the way I——

Mr. NIEWOHNER. Well, no, it's on account of the corporation. Because if the corporation wasn't there, if we would have stayed out of the corporation, they would be considered five people in a partnership. But since the corporation went in this year, there's a ruling that if they own over 20 percent this rule applies. If I would have gone in the corporation we would be all right because they would have 20 percent or less. But I didn't go in because I didn't want to expand any more and that was one way to get them to be able to expand. I could gradually phase out. They're at 25 percent, and the ruling said if you had over 20 percent, this rule applies, and that's what got us into trouble.

Senator EXON. We have also—Ed and I both have been—the Department of Agriculture has been very tough on the enforcement of this, but the toughness of enforcement, we're convinced, is dependent upon how closely the State ASCS offices respond to pressure or lack thereof from Washington, and we have found cases where we are convinced that in other States the same rules are not applied.

In her testimony, Ed, the local ASCS people said that they did qualify. It came to the State and they turned it down. We'll take a look at that.

John, thank you for your testimony on the whole Soil Conservation Program. You and your dad have been known as leaders in that for a long, long time. The $3,500 limit, I assume that that applies to every piece of land in the United States. Is that right?

Mr. HANSEN. The $3,500 limit is the limit placed on the amount of ACP cost-share dollars that any one cooperator can receive from the ACP program in one fiscal year, the original——

Senator EXON. Well, now suppose I have a 600-acre farm and you have a 60-acre farm, do each qualify for the $3,500?

Mr. HANSEN. Right.

The original limit, when it was set into law, I believe, Senator, was 1956, and the level was $2,500. That restriction has caused a lot of conservation problems down through the years. It's something we have discussed with you and Senator Zorinsky on many trips back to Washington through the NARD Association, our correspondence, et cetera. That limit was raised several years ago from $2,500 to $3,500, but when you look at the amount of conservation you can buy in 1986 compared to 1956, and the average size of most farm operations, we're running around with a $3,500 limit that is so unrealistic that it really seriously impairs the program.

Senator Exon. In the days of yesteryear, the $2,500 was a whole lot more than $3,500 is now, is that what you're saying?

Mr. Hansen. There was a time when $2,500 was almost worth $2,500, and that is no longer the case. Plus the fact that the cost of construction has gone up and the size of operations are much larger, and I feel that if there need be some restriction on the amount of cost-share dollars they produce or can get in a given year that that ought to be appropriate enough at the discretion of the locally elected county ASCS committee. I think that is a more appropriate function for them to perform.

Senator Exon. I agree.

Mr. Wickett, I liked your breakdown of the yearly expenditures here. It is good. And we get very much concerned about expenditures on farm programs but they're still 3 to 3½—traditionally 2 to 3 percent of the total Federal budget which—while any expenditure has to count, it's a relatively small part, and so I thought that your bringing out that was very helpful and I appreciated that.

Then the last question I have is with regard to you, Frank, I have listened to your statement. I read through your statement. I agree with everything that you have said. You looked at me as if I didn't agree with you, and I was wondering what signal you were trying to send.

Mr. Wickett. That was about—OK, my statement here is also maintain foreign—U.S. dairy farmers cannot feed American people. That's a pretty bold statement.

Senator Exon. U.S. what?

Mr. Wickett. The U.S. dairy farmers cannot feed the American people. That's when I started doing this——

Senator Exon. Oh.

Mr. Wickett. In my statistics, you know, here—you see, later on then, I have my proof in all of my facts and figures back here.

Senator Exon. In other words, what you are saying is——

Mr. Wickett. That's what I was looking at.

Senator Exon [continuing]. That of our dairy people—in other words, if we didn't have imports, we would not have enough dairy farmers to provide the milk necessary for America, is that correct?

Mr. Wickett. It's a critical line. I think so. It's just like oil.

Right now, I got this here [indicating]. We get this here—I get this every once in a while. They call me, and this is the Nebraska Agrifacts and it's——

Senator Exon. Yes.

Mr. Wickett. OK, maybe you've seen this.

Well, anyway, I just got this last week here, a 21-State milk production, whoever they are, right, and I don't know. It doesn't say. For July we produced 10.5 billion pounds for that month. Now, if there's 240 million people in the United States—I think that's the latest——

Senator Exon. About, yes.

Mr. **Wickett**. So that 5 gallons a month is what we're producing right now.

Senator **Exon**. Total.

Mr. **Wickett**. On the 21 States, yes, for those 21 States. Those are 21 producing dairy States, 5 gallons.

Senator **Exon**. Well, sure, but that's where the milk comes from, basically.

It seems to me, once again, that we are—I was under the assumption than we were producing more milk that we could use in the United States.

Mr. **Wickett**. We are, we are, but—now I talked to Harlen Mamiken, north central region of AMPI, and in storage right now—this is a big number—butter in storage is 240 million pounds, but you divide that by how many people and you've only got—you can carry it in your hip pocket. Everybody can carry it, but you have to pay for that. But my point today is, I think it's OK to have a little reserve, you know. I don't known where you want to call the line. What I'm hearing from the administration is that we're supposed to have that at zero. I don't think so.

Senator **Exon**. I guess we're right back to the point, and I think we agree, that the last 2 months, as I referred to earlier, we have imported more food into the United States than we have exported. It kind of proves a point that we better take a look at our home base first. Most other countries, including the European Common Market, and especially the Japanese, look at food production as an important part of their national defense. I look to our farmers primarily—their primary job, I think, is to feed America. Whatever we can sell overseas at a profit or to subsidize it, when necessary, to keep the stocks from driving prices down is good. We're not doing a very good job taking care of our own, I suggest.

Thank you, you are a very good panel.

Thank you, Ed, I've enjoyed the whole hearing very much.

Senator **Zorinsky**. Thank you, Jim, and again I thank this last panel.

Sometimes you miss a lot when you have representatives speaking on behalf of a large group of people, but you people were speaking for yourselves from your personal involvement and responsibilities in agriculture. I appreciate that.

I would just like to conclude by saying the committee has received several statements from persons who were unable to attend the hearing today. Their statements will be made part of the hearing record. We have statements from State Senator Tom Vickers, Molly Anderson, Tom Johnson, William Kaliff, Rollie Lake, and Kent Gansebohm, who was here but had to leave, and Roger Reininger, who also was here earlier and had to leave.

Also, the hearing record will remain open for 2 weeks. If there are any persons in the audience who have remarks that they would like to make, please submit them in writing to my office in Washington and I'll make sure that the remarks are printed as part of the record of this hearing.

I would like to thank all the members of the staff, of Jim Exon's staff, and my staff in Washington, Rick Pasco and Tawney Simon, together with the staff of the U.S. Senate Agriculture Committee, Dave Fischer, and Carl Rose, the court reporter, and all of those that helped put this together and are dedicated to a better environment and economic future for agriculture.

I want to thank you for attending and for being here and for being concerned citizens of this country with regard to the future of agriculture.

We invited all of the members of the Nebraska congressional delegation. I think the other two Members of the House had previous commitments or other engagements and could not attend. I was very pleased that Congressman Bereuter could attend. Certainly this problem knows no partisian boundaries. It's a problem confronting our country and the United States of America, and I think it's beneficial for all of us to try to work together to resolve this problem.

Thank you very much for being here.

We are adjourned.

[Whereupon, the committee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. J. JAMES EXON, A U.S. SENATOR FROM NEBRASKA

It is a pleasure to be here today. I hope our efforts will help bring renewed meaning to the phrase "Nebraska—the good life". As you know, tomorrow is the first day of the 1986 Nebraska State fair. That event has always been a showplace of Nebraska's agricultural expertise, as I am sure it will be this year. But one does not have to look too hard to know that something is terribly "out of whack" in agriculture today. And for that reason it is very important that we gather to find out from those who know best, our farmers, ranchers, and rural business leaders, what directions we should take in the farm policies which affect everyone in Nebraska.

In Washington today there seem to be two visions for the direction of American agriculture.

Those who subscribe to one vision advocate lower commodity prices to help us regain lost export markets—regardless of the terrible cost to our family farmers and ranchers. That vision is good for America's trade deficit and it's good for multinational grain traders. But it is terribly painful, as I am sure many here can attest, for rural America.

The other vision places less emphasis on dominating world food production and more emphasis on raising commodity prices to regain health in American agriculture. It presumes that other countries throughout the world will continue their efforts to be self-sufficient in agriculture. That vision views our family farms and ranches as a national asset which are important, not only to the quality of life in rural America, but important to our national security and independence as well.

Comparing these two visions, I know that the second one is better for rural America. Obtaining a fair price for agricultural products is one way we can work our way out of the current depression. But I realize that whichever path we choose, it must not fly in the face of worldwide conditions as they exist today or will exist tomorrow.

Earlier this year, I asked the Congressional Research Service to evaluate the production potential of countries which are beginning to flex their agricultural "muscle". Although this study has not been finalized, some information about wheat and corn production is available.

Some important trends become very apparent. Advances in technology, which are largely the accomplishments of institutions like this one, are bringing the world to new heights in farm production. While that change is good news for hungry nations, it will have great implications for American agriculture.

Around the room here you may have noticed several graphs which show these changes. Graphs numbered 1 and 2 show U.S. corn and wheat production from 1960 to the present.

Graph number 3 shows the wheat production of China during the same time frame. The Chinese have increased their wheat production by more than 300% since 1960. What I find truly noteworthy about the Chinese, however, is that they have done this with only a small increase in the acreage harvested. Imagine the potential when they expand their acreage.

Another noteworthy country, shown on graph 5, is Bangladesh. What used to be a basket case is on its way to becoming a bread basket. Although the total production of wheat in Bangladesh is small compared to the United States, it does represent an important trend in food self-sufficiency.

Similar trends exist in more agriculturally established countries like Canada and Australia. In those two countries, wheat production has risen by 184 and 219 percent since 1960.

Wheat is not the only commodity whose production has increased. Graph number 5 shows the increases in corn for the People's Republic of China. The trend is similar in many other countries.

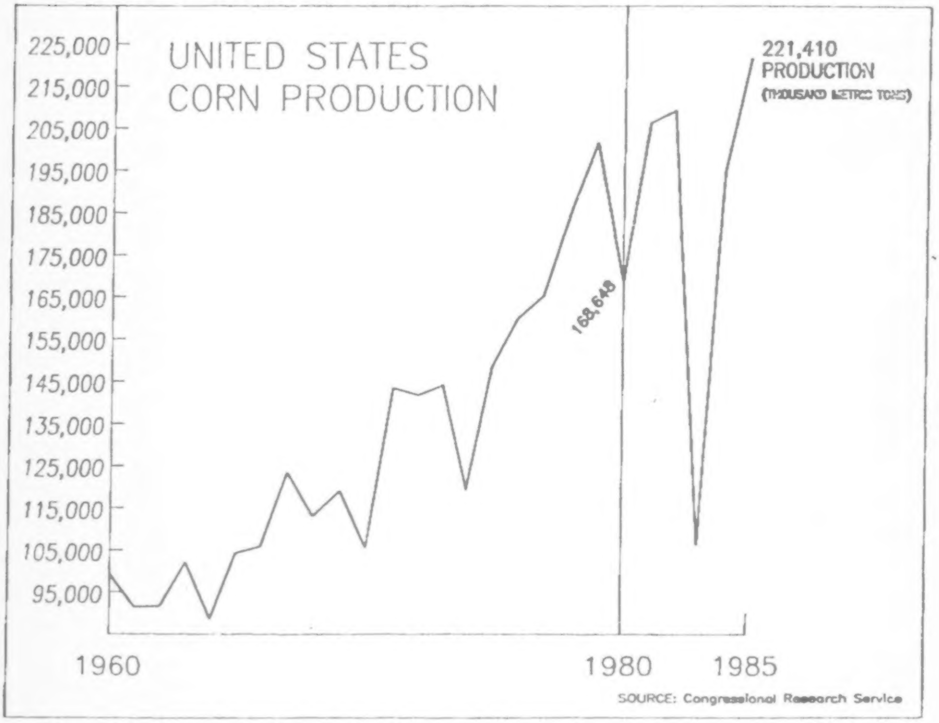
My point in all of this is that we cannot expect the rest of the world to be satisfied being dependent on the United States for food. The last graph shows the percentage of our farm production which has been exported since 1930. Only in the last 15 years have we exported more than 30% of the corn and wheat we produced. It is time to "rethink" whether our level of exports in the late 70's and early 80's is the norm or if it was an aberration. We need to be aggressive exporters and break down the barriers to fair agricultural trade. But we also need to base our agricultural policies on realistic conditions and not a fallacy.

Finally, I want to comment on the wheat poll which was recently completed by the USDA. Although the White House and the Department of Agriculture try to downplay its significance, I feel sure that America's wheat farmers have made their point. The approval rating in those States which account for over 70% of America's wheat production averaged more than 60%. In Nebraska, the production controls which Senator Zorinsky and I have advocated, received an approval rating of 69%. I say that is significant.

When Congress reconvenes in 10 days, many of us who represent agricultural states will be following up on this important initiative with legislation. We have heard the message loud and clear, and will carry that message to the White House and the halls of Congress.

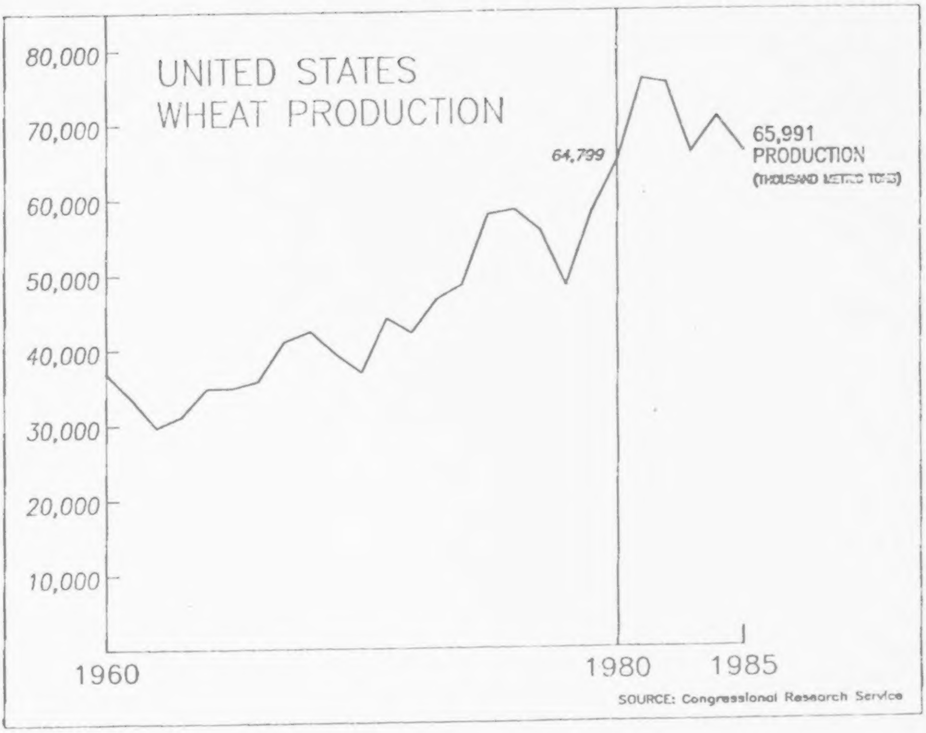
With these thoughts in mind, I look forward to spending the next several hours learning more about what Nebraskans think of our farm policies and the direction we should take in the years to come.

Chart 1



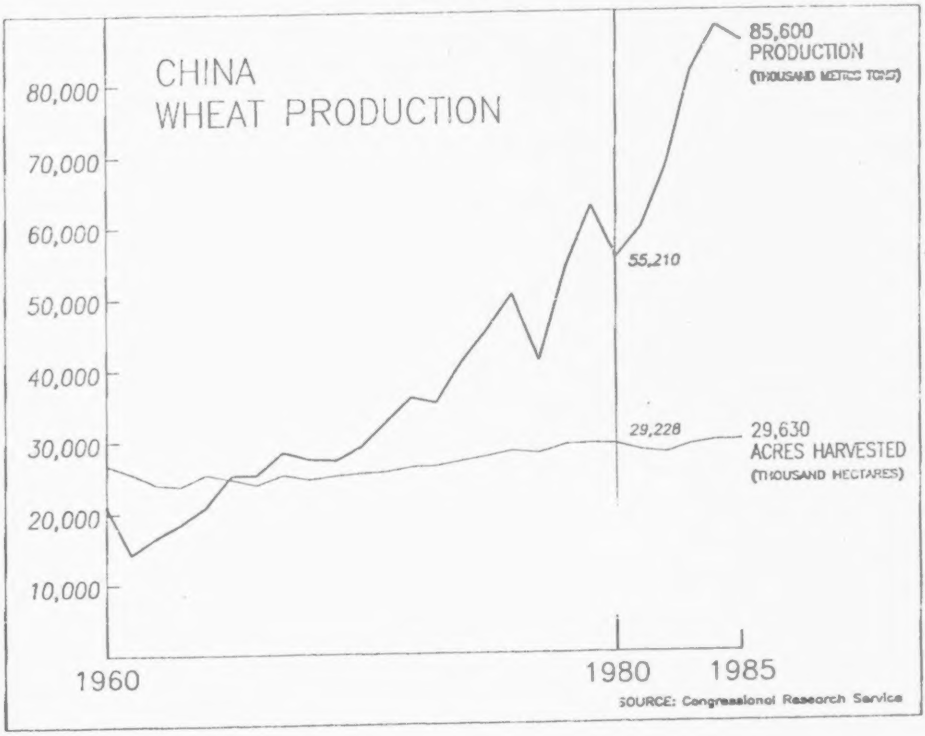
SOURCE: Congressional Research Service

Chart 2



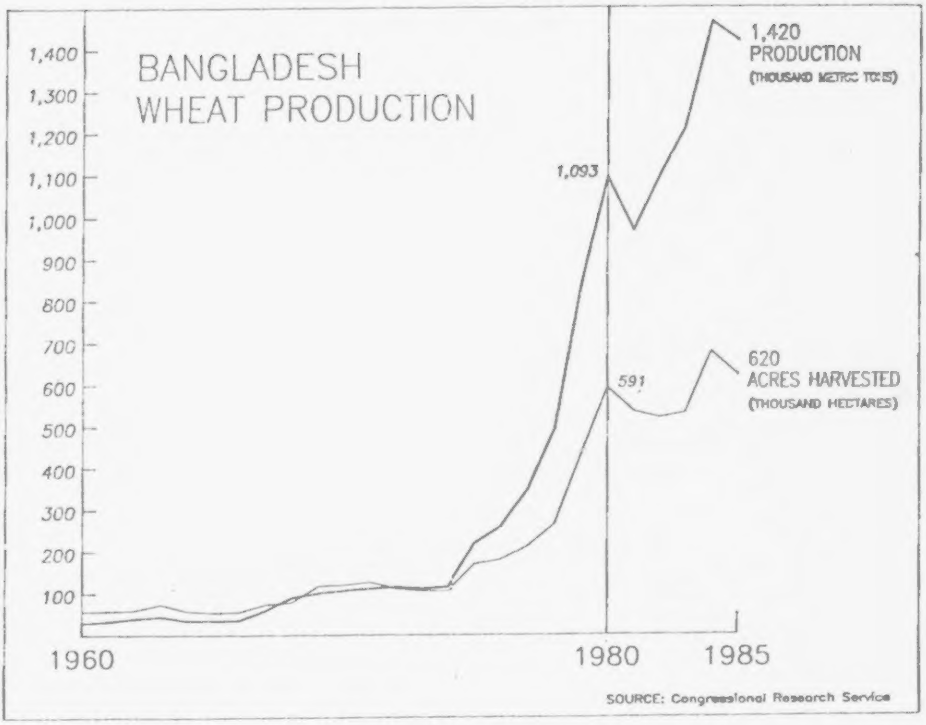
SOURCE: Congressional Research Service

Chart 3



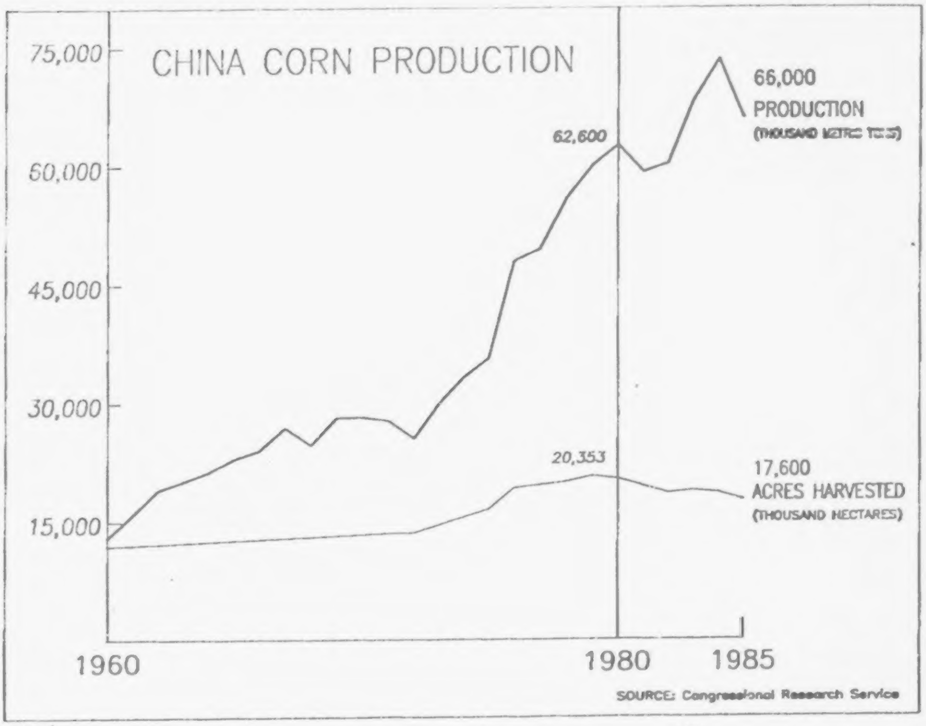
SOURCE: Congressional Research Service

Chart 4



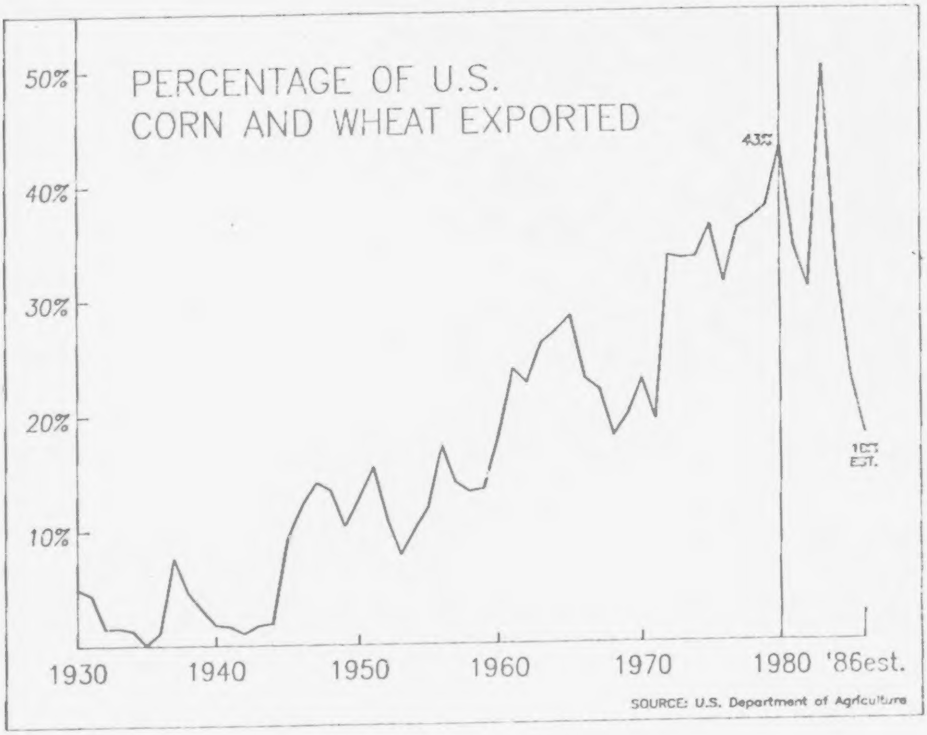
SOURCE: Congressional Research Service

Chart 5



SOURCE: Congressional Research Service

Chart 6



SOURCE: U.S. Department of Agriculture

[The following material was inserted by Nebraska State Senator Bill Harris:]

THE FREE MARKET SYSTEM IN AGRICULTURE: A BAD IDEA WHOSE TIME HAS RUN

Intent.—Agriculture should function like any other industry; it should not be subsidized. Price supports should be eliminted.

Result.—The 1985 farm bill will result in costs higher than any other in history. Secretary of Agriculture Richard Lyng estimates $24 billion this year; others estimate the cost at closer to $31 billion.

Intent.—The way to prosperity for agriculture is by winning back foreign markets. To do that, price supports must be eliminated to make U.S. agricultural commodities cheaper and more competitive. Increased market share would ensure profitability.

Result.—Foreign markets have not been regained; in fact, exports have steadily declined. In spite of lower prices and the lower value of the dollar, the U.S. actually imported more farm products in May and June of this year than it exported. Export volume has declined 2.74% for each 1% drop in commodity prices.

Intent.—Reducing commodity support prices would lower the federal deficit, thus reducing interest rates and improving the overall economy.

Result.—The federal deficit is larger than at any time in history—$212 billion for 1985; estimated by the Congressional Budget Office at $224 billion for 1986. While interest rates in general have dropped, they remain high for agriculture, because of the risks perceived by lenders.

Intent.—Government should get out of agriculture.

Result.—Because of low prices, farmers are in record compliance with the program. They cannot afford to stay out. In addition, the government is holding and paying for storage of record grain surpluses. The surplus is so huge that barges, military bases and Air Force hangars are being considered as storage sites. Transportation of grain to these sites adds to the cost, currently $1.6 billion a year.

Intent.—The market will eliminate inefficient producers, automatically bringing supply in line with demand.

Result.—This is the only part of the theory that has proven to be somewhat true—farmers are abandoning their land in record numbers. But the amount of farmland remains the same. It is merely concentrated in the hands of fewer owners, and it is still producing a record surplus of grain.

WHY HAS THE MARKET-ORIENTED APPROACH FAILED?

Agriculture is not the same as other businesses.

It is the source of the most basic necessity—the food supply, which must be safeguarded.

Demand for food is relatively inelastic—it does not respond to price fluctuations. People do not eat more grain simply because it becomes cheaper.

Other industries can respond to varying levels of demand—retail stores by shifting stock, manufacturers by increasing or decreasing production—but farmers make all their production decisions long before they know what the market and the weather will do.

Farmers make their decisions independently.

Exports have not provided the solution they were expected to.

More and more foreign nations are entering the export arena, and they are doing so with government subsidization. Roughly 30 nations that were normally food importers have become food exporters.

Many of these countries have a memory of being hungry as a result of World War II. Their goal is to become self-sufficient rather than depend on imports which can be cut off by political events. Food production has become a part of national security policy for these countries. To protect their producers, they have enacted quotas, tariffs and other import barriers.

It is estimated that only 5 percent of grain demand exists in a "free market." The rest is either bought or sold in government-controlled markets or is restricted by government programs.

Many experts believe we have lost forever a substantial share of the world market, and it will not be regained without a serious disaster such as drought or a Chernobyl-like incident.

Non-farm policy decisions affect the agricultural economy.

Food has been used as a weapon in national and international policy: 1973—embargo on soybean exports; 1974—wheat and corn contracts with USSR cancelled; 1975—embargo on feed grains; and 1980—Soviet grain embargo.

International debt-handling policy has required debtor nations to increase their exports and cut back on their imports. As a result, Latin America, our third largest market for agricultural commodities, went from $6.9 billion in import volume in 1981 to $4.5 billion in 1982. Argentina has increased ag exports 47%; Brazil 56%; Mexico 62%.

The IMF is, in effect, encouraging world-wide overproduction to protect against defaults and collapse of the money center banks. The American farmer is being sacrificed in order to help the international banks collect those loans.

Under our trade agreements, the U.S. is the world's largest importer of beef and the second largest importer of other ag commodities.

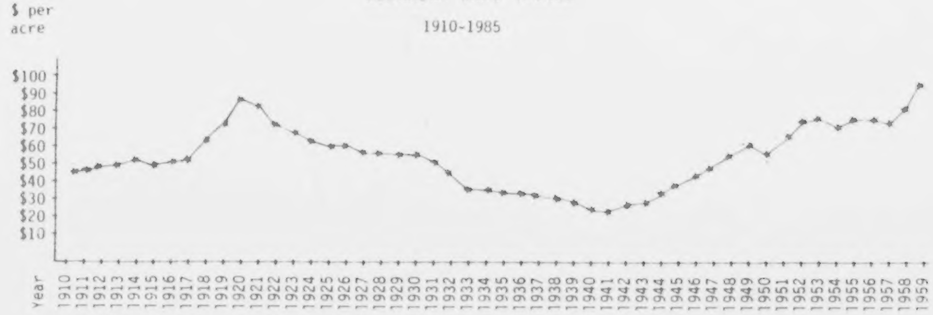
Tax policy has stimulated investment in added productive capacity so as to benefit from tax shelters. Tax shelter farming bids up the price of land.

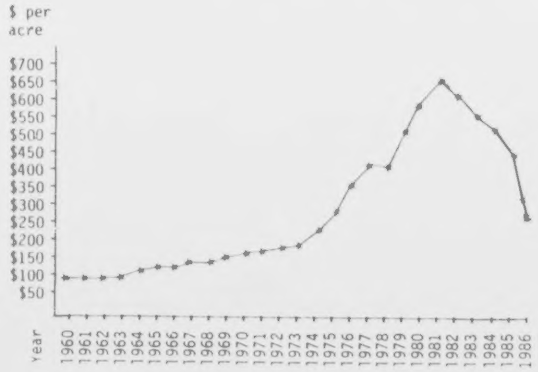
The transfer of technology under foreign aid programs has led to increased productivity in developing nations. As of 1978, the U.S. had spent $7 billion toward ag research and development in foreign countries.

Our huge national deficit creates a need to borrow from other countries, keeping the dollar and interest rates high.

NEBRASKA LAND VALUES

1910-1985





1921 - 1935

As the price of land fell from 1921 through 1935, there was an increase in "Land in Farms."

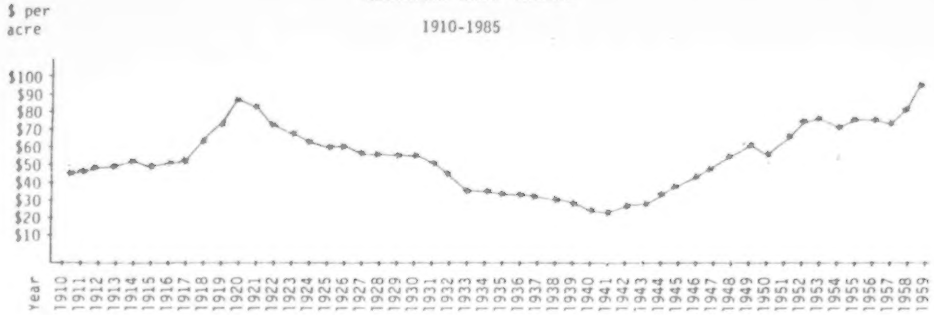
Without acreage restrictions, we will see a repeat in the 1980's.

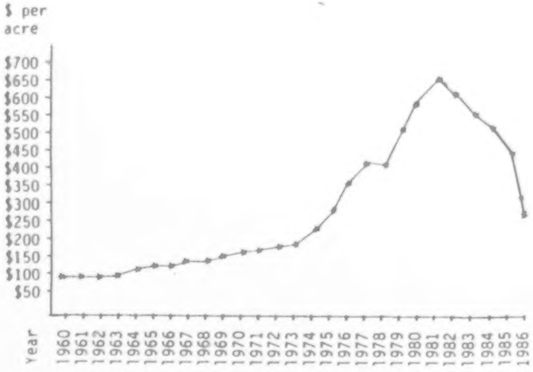
Farm Real Estate Values In Nebraska. USDA Historical Series.

Year	Number of Farms Thousand	Land in Farms Million Acres
1921	125.1	41.9
1922	137.1	41.9
1923	126.6	42.1
1924	127.3	41.8
1925	127.5	42.1
1926	128.2	42.5
1927	128.5	43.2
1928	128.6	44.0
1929	128.9	44.3
1930	129.3	44.6
1931	129.9	45.0
1932	130.8	45.8
1933	132.0	46.0
1934	133.2	46.4
1935	134.0	46.9

NEBRASKA LAND VALUES

1910-1985

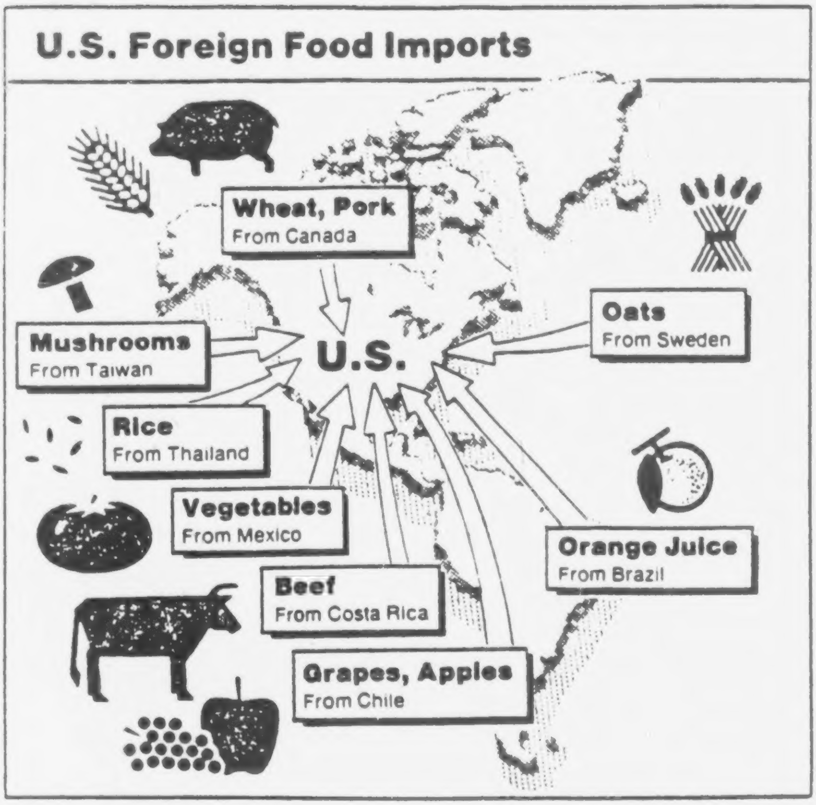




NEBRASKA FARM PRICES

Year	Wheat	Corn
1910	.80	.36
1911	.87	.55
1912	.69	.37
1913	.71	.65
1914	.95	.53
1915	.84	.47
1916	1.60	.78
1917	1.95	1.20
1918	1.97	1.28
1919	2.02	1.22
1920	2.08	1.56
1921	1.07	.34
1922	.97	.44
1923	.90	.66
1924	1.00	.69
1925	1.44	.89
1926	1.31	.65
1927	1.16	.74
1928	1.07	.78
1929	.97	.77
1930	.54	.52
1931	.39	.36
1932	.27	.13

Source: History of Nebraska, James C. Olson
University of Nebraska Press, 1966


U.S. Foreign Food Imports
Wheat, Pork
From Canada
Mushrooms
From Taiwan
U.S.
Oats
From Sweden
Rice
From Thailand
Vegetables
From Mexico
Orange Juice
From Brazil
Beef
From Costa Rica
Grapes, Apples
From Chile

Tom Friel/World-Herald

Food flows in . . . from Canada, South and Central America, Europe and Asia.

[Reprint from the New York Times, August 24, 1986]

AMERICANS BUY MORE AND MORE FOOD IMPORTS

WASHINGTON.—Almost unnoticed in the national anxiety over rising imports of autos, steel, textiles, and electronic appliances is the increasing amount of foreign food consumed by Americans.

Pork flows in from Canada; beef from Australia; tomatoes, broccoli and cauliflower from Mexico; olives from Portugal; apples from Chile; orange juice from Brazil; mushrooms from Taiwan.

Despite transportation costs and U.S. tariffs, the products carry lower price tags than their American counterparts.

This makes imported food a blessing for American consumers but a new nightmare for American farmers, already driven out of many of their traditional export markets.

Florida farmers, who once dominated the winter vegetable market, now produce less than half of the tomatoes, peppers, cucumbers and other produce eaten by Americans between December and April.

Mexican growers, financed by American companies, supply more than 70 percent of the winter vegetables during January and February, and control about half of that market in other months.

Imported beef accounts for 9 percent of the American market.

Rice from Thailand was sold last year in California for less than the American product, despite a huge domestic harvest and historic surpluses.

The insult of insults appears to be coming from Canada, whose wheat is being shipped to New York and other border states.

Wheat was the one food that American farmers thought nobody else could ever supply for domestic use as inexpensively as they could.

Imported foods are not newcomers to American pantries.

GOURMET FOODS

Danish and Polish hams, Iranian and Russian caviar, French wines and cheeses and Italian olive oil have long been considered gourmet foods that are beyond their American counterparts in quality—and price.

But the imported foods now flowing into American supermarkets compete with what until recently were among the mainstays of this country's farm economy.

Brazilian growers, with the help of government subsidies, low-cost land and inexpensive labor, can produce juice oranges for less than one-third of the costs of Florida growers.

Unlike Toyotas or Sonys, imported food is not easily identifiable. Fresh produce rarely bears a label. And canned or frozen foods sold under American labels often contain foreign ingredients.

The Campbell Soup Co., which operates a beef processing plant in Argentina, imports much of the beef used in its chunky soups.

[Reprint from the Omaha World-Herald, August 24, 1986]

Brazilian Oranges

Minute Maid, Tropicana and other major brands of frozen and chilled juices use a 50-50 blend of Brazilian and American oranges.

With Americans eating so much foreign food, the nation's balance of trade in agriculture—once a huge source of export earnings—is dipping into deficit.

In May and June, the nation imported $419.7 million more in farm products—edible and non-edible—than it exported, the first monthly agricultural trade deficit in a generation.

For the year as a whole, the United States may import more food than it exports for the first time since 1959.

All told, food imports are expected to total $24 billion this year, a record amount.

Although imports make up only 6 percent of the total $400 billion spent on food in the United States, the percentage has nearly doubled since 1960.

SIZABLE PORTION

And in some food sectors, imports make up a sizable portion of the market.

According to retailers, imports compose 40 percent of the $6 billion to $8 billion gourmet food market and 20 percent of the market for fresh fruits and vegetables.

America's switch, from the world's dominant food exporter to the second largest food importer behind West Germany, is likely to strengthen those on Capitol Hill who seek to insulate American industry from foreign competition, and those who are pressuring Congress for changes in the nation's farm policy.

"The entire emphasis in American agriculture has been on sending raw grain overseas," said Bill Janis, an economist at the Department of Commerce. "But that policy is dead as dinosaurs.

"Argentina, Canada, Brazil, France, China, India, everybody's competing with us in major grains, and we're losing our share of the market. Let's stop pretending we're going to get back to where we were five or ten years ago, and concentrate on exporting higher value products," Janis said.

IMPORT DIVERTED

Last year, the high value of the dollar and the lower cost of grain overseas prompted Cargill Inc., a major American grain trader, to buy 15,000 tons of Argentine wheat for distribution in the United States. American farmers learned of the sale and convinced Cargill to divert the load to Europe before it arrived in New Orleans.

But that did not slow the flow of imported grain. Flour mills and bakeries along the Canadian border last year imported 270,000 tons of Canadian wheat for $37 million; American grain processing companies imported 400,000 tons of Swedish oats; also 50,000 tons of rice from Thailand flowed into California.

U.S. FARM IMPORTS ARE FEEDING TRADE DEFICIT

PRODUCE GROWERS LOSING

Fruit and vegetable growers are also losing ground.

A farm worker picking grapes in California can earn $10 an hour. A field worker in Chile earns between $2 and $3 a day.

The wage differences, combined with lower costs for land and capital, have made it possible to fly a load of apples from Chile to Boston and sell them for less than apples grown in New York.

In Mexico, 25 of the largest American food companies—such as Campbell Soup, Pillsbury, Castle & Cooke, General Foods—have developed extensive food-producing interests.

All have signed contracts with Mexican farmers to grow fruits and vegetables. Most either built or bought canneries and other processing installations.

MEXICAN EXPORTS

In all, Mexico exported nearly $1.5 billion in food to the United States last year. Only Canada and Brazil export more.

American food companies are quick to defend their overseas involvements. "American consumers want the variety," said Barry Scher, a spokesman for Giant Food. "Also, a fair portion of the imported food is in crops that come from Central and South America during the winter when we aren't growing most of our fruits and vegetables. We now provide a year-round supply of fresh produce."

Castle & Cooke, a Honolulu-based multinational company, has interests in fresh fruit production in Chile, the Dominican Republic and Peru.

Burger King, a division of Pillsbury, produces six million pounds of beef in Costa Rica under contract with Central American ranchers, enough to supply 2 percent of its hamburger needs in the United States.

GRAPE GROWERS

Orange juice makers are not only using foreign-grown oranges, but some American companies have also established overseas citrus processing plants.

And Chilean grape growers are hoping to have the same impact as their citrus counterparts in other Latin American countries. They have increased their production tenfold in a decade and now are the primary competitors to California growers.

Chile table grape sales now account for 22 percent of the $670 million American market.

The Pillsbury Co., which markets fresh, frozen, and canned vegetables under the Green Giant label, opened a plant three years ago in Mexico to freeze broccoli and cauliflower. The installation now accounts for one-third of the company's production of the two crops.

"COST ADVANTAGES"

"There are cost advantages," said one Pillsbury vice president. "We can freeze a pound of broccoli in our plant in Mexico and bring it to our plant in Belvedere, Ill., for about 35 cents a pound. In California, it costs us about 45 cents a pound."

According to the Campbell Soup Co., the cost of processing tomatoes is more than $70 a ton in Ohio, where the company operates a tomato paste plant. In California, the cost is roughly $54 a ton. In Mexico, the company can produce a ton of tomato paste for $17.

By far the largest American participant in Mexican fresh produce is Castle & Cooke, which sells fresh and processed fruit under the Dole label. Though Castle & Cooke continues to produce lettuce, broccoli, cauliflower and celery under contract to California and Arizona farmers, it has exported much of the fruit and vegetable production to Mexico and other regions of Latin America.

CUTS IN CALIFORNIA

The cost savings in Mexico have resulted in sizable reductions in several of California's fruit and vegetable industries. In San Diego County, for example, farmers planted 2,000 acres of tomatoes this year. Six years ago, according to the California Farm Bureau Federation, farmers there planted 5,300 acres.

Between April 1985 and February 1986, seven large farms and food companies closed in the Salinas, Calif., area, an important vegetable and fruit producing region south of San Francisco, resulting in the loss of 3,090 jobs.

[Reprint from Lincoln Star, August 23, 1986]

USDA Report: Grain Alcohol Subsidies Would Be Costly

STATE SPOKESMAN DOESN'T THINK THERE WOULD BE COST PROBLEMS

WASHINGTON (AP)—Any plan to help farmers by significantly increasing the production of fuel-grade alcohol from corn would be so costly it would be better simply to give farmers the money, an Agriculture Department report said Friday.

Last year, about 238 million bushels of corn were used to make 595 million gallons of ethanol, the high-grade alcohol used to stretch fuel by blending it with gasoline. That represented 2.7 percent of the record 1985 corn crop of nearly 8.9 billion bushels.

At the present rate, ethanol production is expected to rise to about a billion gallons in 1995, which would require 411 million bushels of corn.

But if the industry is subsidized enough so production would rise to 2 billion gallons by 1995, double the present trend, an estimated 800 million bushels of corn would be needed. That would cause economic ripples among farmers and consumers.

In its study of costs and benefits, the USDA's energy office found that "if large enough subsidies are provided, additional ethanol production would increase net farm income by an estimated $2.2 billion over the 1986-94 period" or at the rate of 58 cents per additional gallon of ethanol.

"However, a much larger amount, some $1.25 to $1.35 per gallon, would go for energy, chemicals, labor and overhead costs incurred in converting corn to alcohol" the report said.

Moreover, it said, the higher corn prices as a result of greater ethanol output would increase the cost of producing beef, pork and poultry. Consumers would pay an additional $8.6 billion for food during the 1986-94 period, an average of $2.29 per gallon of ethanol.

"Subsidized ethanol production is a very inefficient way to raise farm income," the report said. "It would be much more economical to burn straight gasoline in our automobiles and pay farmers a direct subsidy equal to the amount they would receive as a result of ethanol production."

"My immediate reaction is this is fairly typical of the nonsense USDA puts out," said Todd Sneller, administrator of the Nebraska Gasohol Committee in Lincoln. The USDA has no programs to increase demand for grain, he said. "The USDA isn't offering anything except grain storage programs, which doesn't address the problem."

"I guess there are a number of recent reports that would directly contradict their results. One would be a Purdue (University) study that shows a dime a bushel increase in the price of corn."

"Another report that comes to mind is one done by the General Accounting Office (of Congress)", he added. That report showed that government savings in lower grain storage costs and increased tax revenue from jobs created by the ethanol industry would just about offset any losses resulting from tax subsidies to the ethanol industry.

"Their conclusion was it was at least a break-even proposition on its impact on the federal treasury," Sneller said.

Agriculture Secretary Richard E. Lyng said he had not studied the report but had seen a brief summary of its main points.

"I don't think that in any way is it critical of those that are involved in ethanol (production)," Lyng told farm writers and broadcasters in a telephone interview. "This is an economic analysis of the feasibility and outlook for the use of corn in the production of ethanol."

The report said the ethanol industry cannot survive the next eight or nine years without massive government subsidies, given the outlook for oil prices. Costs of producing ethanol in 1986 are estimated to be $1.41 to $1.52 per gallon, while the wholesale price of gasoline is projected to be 55 cents per gallon.

"They never go on to point out the use of subsidies in the oil and gas industry," Sneller pointed out. The Center for Renewable Energy in Washington has shown that federal tax subsidies to the oil industry in 1984 amounted to $8.5 billion and the natural gas industry got an additional $4.6 billion the same year, Sneller said.

"Unless the federal subsidies which are scheduled to expire Dec. 31, 1992, are extended, fuel ethanol production likely will be terminated or sharply curtailed after 1992," the report said.

When all the costs and benefits are compared, it said, the government, taxpayers and consumers together would lose a net of $6.1 billion to $7.2 billion or $1.61 to

$1.92 per additional gallon during 1986–94, if subsidies were increased enough to boost ethanol production to 2 billion gallons in 1995.

"Conversely, if ethanol production falls to zero, they would save some $6.8 billion to $8.9 billion, or $1.35 to $1.76 per gallon not produced," the report said.

MEMO

To: Members of the Nebraska Congressional Delegation
From: Senator Bill Harris
Date: April 9, 1986

In reference to LR 410, adopted by the Nebraska Legislature on April 2, 1986, which requested the Nebraska Congressional delegation to conduct hearings in Nebraska concerning the effects of the 1985 farm bill and agricultural policy on agriculture in this state, I believe that a situation has developed that requires immediate action.

As you are aware, the provisions of the farm legislation called for measures to reduce milk production that are having a disastrous impact on the beef and pork industry in this state and across the nation.

I would hereby request, considering the plummeting prices and the crisis that is developing for our beef and pork industry, that the Nebraska Congressional delegation make immediate arrangements to conduct hearings in Nebraska dealing with this issue.

LEGISLATIVE RESOLUTION—INTRODUCED BY SENATOR BILL HARRIS, 27TH DISTRICT

Whereas, current U.S. monetary policy, U.S. trade, import and export policy and domestic U.S. farm policy are an experiment with questionable and predictably damaging economic consequences for the Midwest and the State of Nebraska; and

Whereas, Nebraska's agricultural production and agribusiness economic sectors as well as the state's overall tax base are highly vulnerable to the failure of the new market-oriented farm program to succeed in its goals of increasing U.S. agricultural exports or net farm income.

Now, therefore, be it resolved by the members of the eighty-ninth legislature of Nebraska, second session, that it is appropriate for Nebraska's Congressional representatives to conduct hearings in the State of Nebraska that will evaluate the progress of the new farm bill toward achieving a greater volume of U.S. agricultural exports and a greater market share for the U.S. in world export markets. Furthermore, the Nebraska Legislature requests that such hearings focus on commerce and the balance of trade between the U.S. and other countries and the trends that are emerging relative to imports, exports and their overall short, intermediate and long term impact on Nebraska's economy.

INTRODUCTION OF LR 410 ON THE FLOOR OF THE NEBRASKA LEGISLATURE BY SENATOR BILL HARRIS, APRIL 2, 1986

Senator HARRIS: Mr. President and members of the Legislature, I have handed out material in regard to this resolution and I hope you will take time to look at it. We might disagree philosophically about the need for this resolution, but the facts stand for themselves. In my opinion, we should take a look at our current situation in regard to the agricultural policy of the United States. The resolution basically says, "We have embarked upon a new course in agricultural policy . . ." and it simply calls upon our Congressional delegation to have a hearing or a series of hearings in the State of Nebraska with real Nebraskans testifying as to the effects of this agricultural policy on the State of Nebraska and the individuals within the state. There are some who have said that we were going to have increasing state revenues as a result of the current agricultural policy, but as a matter of fact, we are looking at revenue shortfalls. I urge you to support this resolution to have our Congressional representatives hold hearings in the state to see what effect the free market system concept is having upon the State of Nebraska. I am going to suggest privately to the Congressional representatives that we hold a hearing in the summer before wheat planting, so that we will be able to embark upon the new crop year with an evaluation of the policies and the resulting effects of that policy. Mr. President, I urge the adoption of the resolution. Thank you.

The motion carried with 26 ayes, 1 nay, on adoption of the resolution.

[Reprint from the Lincoln, Star, Jan. 5, 1985]

HIGH INTEREST RATES AT ROOT OF AG CRISIS

HARRIS CALLS FOR GROWTH IN MONEY SUPPLY

(By Don Walton)

State Sen. Bill Harris of Lincoln challenged economic assumptions about inflation Friday and called for lower interest rates to strengthen the economy and to salvage agriculture at a meeting of Lancaster County Democrats.

"In order to generate profits and jobs to have tax revenues adequate to reduce the (federal budget) deficit, we must allow the money supply to grow and drop the interest rates." Harris told the monthly luncheon meeting.

"Then we will have an opportunity to reduce our debt, to keep our banking system on a sound basis, to reduce our deficits, keep our jobs at home and encourage exports of our agricultural products."

Harris said he believes "we are facing an economic Vietnam in the United States" because as in the Vietnam war, "our leaders have made some bad decisions based on faulty assumptions."

The major economic assumption is that tight money policies and resulting high interest rates are needed to prevent inflation he said. However, the high inflation rate that wracked the American economy in the 1970s was chiefly because of soaring oil costs, Harris said.

The price of oil rose from $2 a barrel to as high as $40 a barrel, resulting in "unprecedented inflationary pressures on the United States and the world's economy," he said.

Since that time, the cost of oil has stabilized and so has the inflation rate, he said.

"Instead of recognizing the effects of this event, we gave credit to the tight money policy and high interest rates," Harris said. "Thus is our fundamental mistake."

And now, when the inflation rate is at a relatively low level, "we are continuing to fight the inflationary battle through tight money and high interest rates," he said.

The result is disaster for the agricultural economy and a mind-set that distorts capitalism's inherent deflationary characteristics into an assumption that inflation naturally will accompany robust economic growth, he said.

"It would be a national tragedy to sacrifice a generation of farmers to fight an inflationary foe that we have improperly defined," Harris said.

If economists, political leaders and opinion-makers tell us that inflation will accompany growth in the economy, an increase in the money supply and lower interest rates, "then indeed we will have inflation because we will all start making the moves that anticipate inflation, which tend to accelerate inflation," he said

"As long as we have this attitude, it truly is a self-fulfilling prophecy. We saw in the 1970s an inflationary psychosis develop which had just as much to do with inflation as did the oil price increase."

Economic policies that continue to be based on faulty economic assumptions can lead to "a winter of depression" in Nebraska, Harris warned.

"At the present time, we have high interest rates; we have low commodity prices: we have virtually no liquidity; we have foreclosures with no buyers for that foreclosed property; we have failed and failing lending institutions; and on top of this we have no new capital entering the state of Nebraska to give an underpinning and a base to stop the downward price spiral of land values.

"I assure you that if we eliminate or cut government farm programs and get agricultural land values back to where they will cash flow at 14 or 15 percent interest rates, we will destroy the equity base for both the farmers and the banking system of Nebraska.

"We are rapidly seeing our situation turn from a farm crisis to a bank crisis, and that is a scenario for depression.

"In my opinion, high interest rates are the root cause of our overvalued dollar our declining land values and our dismally low net farm income.

"If we do not take action immediately, we face a disastrous situation in the coming months for agriculture. There is very little money available in the agriculture lending area, and there is very little hope that there will be an improvement in the situation by next spring."

STATEMENT OF BRYCE NEIDIG, NEBRASKA FARM BUREAU FEDERATION

It is my understanding that the purpose of this hearing is to assess the impact of the '85 Farm Bill. While that may appear to be a noble effort, in most areas it is impossible to accurately assess impact at this time. Quite frankly, we are only beginning to see any results or effects.

During any discussion of the '85 Farm Bill it seems that the negative is always emphasized. I think we must recognize that there are always two sides to any issue. Even though I understand that Farm Bureau is catagorized as "guilty by association", let me point out that it was not "our bill" and there are many areas of disagreement.

First and perhaps foremost, Congress took an excessively long time debating the '85 Farm Bill, consequently it was passed later than should have happened. This delay, in some cases, caused difficulty for some producers in seeking financing. We then need to ask, was it probably the best that could be achieved under the conditions and time constraints at that point? Or would we have been better off without passing legislation? Apparently the feeling of Congress was for the former.

Nebraska had some problems early on, no doubt at least partially because of the time factor. For instance the problem with the underplanted acreage provisions that affected not only Nebraska, but other states as well. One problem that was almost unique to Nebraska was the sodbuster provision as related to alfalfa. Even though both of these were resolved, they were very real.

In my opinion, one of the best features of the '85 Farm Bill is the Bonus Export Enhancement provision. And conversely at this time is also a problem. Even though the '85 Farm Bill authorizes the use of this type of export enhancement, the non-use or misuse of this provision can be laid squarely at the feet of the administration. It just doesn't make sense to us to not vigorously pursue improving our export markets with this tool. And to not treat our largest customers the same as our smallest is difficult to comprehend.

I used to be in the custom anhydrous application business. The surest way to lose a customer was to offer a better price to a 40-acre job than you were giving to the 100 acre customer. It seems to me that is what we are doing in international markets.

There are those that are concerned about the reaction of the EEO. I can speak with personal knowledge of the concern of the EEO. I had the privilege of being part of a trade mission to the EEC in May of this year. Let me assure you, the Common Market people are literally shaking in their boots over U.S. farm policy. I happen to think that just maybe that should tell us we are on the right track.

But obviously at this time the '85 Farm Bill hasn't had time to have an impact to any great extent. Although it will affect a number of states, the conservation reserve section of the '85 Farm Bill can potentially affect Nebraska more than most. This program unquestionably got off to a bad start, but the fact remains clear that the conservation reserve does have the potential to very positively affect farmers' incomes and to greatly impact crop production while at the same time protect our natural resources.

While being touted originally as a method to both reduce production and improve income, the "whole herd dairy buyout" in our opinion will go down as one of the great mistakes. We should all be able to recall the devastating decline in the cattle markets when the buyout levels were first announced. And to say that was simply over-reaction on the market's part doesn't add to the producer's check who had cattle on the market that day. And on top of that we see further increases in milk output.

Sometimes even our hindsight gets blurred. We are quick to blame the '85 Farm Bill for much of our upcoming storage problem and fail to recognize that all of the grain presently on hand got there before the '85 Farm Bill was even passed. Then we also tend to forget that we don't have weather, at least in Nebraska, so conducive to bumper corn yields like we have had for several years. Not even the '85 Farm Bill has a weather clause in it.

There is no question about the fact that much of rural America is going through really "gut wrenching" economic times. And we don't think that any one thing deserves all the blame.

We hear that "price" is the answer. Price alone is not the answer. If we think that just price will get us out of this mess we're in, our memories are once again rather short. Price and cost have a natural and unavoidable attraction for each other. In other words, they always tend to come together. Was there any relationship between $3.50 corn and $3,000 acre land? We think so.

We have just finished a nationwide Wheat Poll. Just about everyone is claiming victory. We question that any real solid conclusions can be drawn from the results. And in one important area the rules appear to have been changed after the ballots were cast. The information furnished prior to and during the balloting period stated that USDA was only required to count those ballots from producers with 40 acres or more of wheat. But in fact, all ballots were counted. How many producers refrained from voting on the premise that it wouldn't be counted anyway? Nevertheless, the outcome gives some fuel to the fires of the mandatory production control advocates.

First, only partial control, is unrealistic. And even though Farm Bureau is convinced that mandatory production controls won't work, the only way to proceed down that path is by *TOTAL* supply management. In other words, bushels sold, input costs controlled and finally complete protectionist policies enacted.

Speaking of protectionist measures, according to the Journal of Commerce, (Aug. 20, '86) Taiwan has threatened to stop the purchase of U.S. corn if U.S. corn growers persist in supporting such things as the textile bill. Taiwan bought 2.8 million tons of corn worth $400 million last year.

It is always interesting to note that those who are the most vocal in support of mandatory controls are oftentimes the same ones who are the most vocal about saving smalltown America. We contend that these two attitudes are not compatible. If we are realistic about the size of the acreage reduction necessary to achieve certain stated price goals, the number of smalltown businesses needed and that can be profitable will be reduced by and because of drastic production cutbacks.

We have had some minor program changes made just recently, relative to our '86 crop and what to do with it. Let me point out that increasing the amount of storage payment may help a producers income to a degree but does nothing to move product into a market. Also, the same holds true by allowing grain to temporarily be placed under loan while being stored on the ground.

Also, it is our understanding that we have a potential problem in Nebraska due to the fact that under some conditions our PSC will not issue warehouse receipts for such grain.

All in all, while not offering any sort of panacea in my remarks, I hope that I have helped make you aware of some of the good as well as the bad in the '85 Farm Bill.

STATEMENT OF C.G. KELLY HOLTHUS, PRESIDENT, NEBRASKA BANKERS ASSOCIATION

Senator Zorinsky and members of the Committee, my name is Kelly Holthus and I am the President of the Nebraska Bankers Association, a trade association representing 427 of the 432 commercial banks in Nebraska. Our association constantly monitors both federal and state pending legislation and all facets of the farm economy, upon which our financial industry is highly dependent. Whether we like it or not all of us in Nebraska, including financial institutions, service industries, support facilities and other businesses connected with farming, are engaged in the business of farming. If the farmer prospers or despairs, so do the related industries in this environment that is so highly dependent upon the sale of farm products for its viability.

Before I examine the specific, let me say that in my opinion the 1985 Farm Bill has had a chilling effect upon the granting of all types of agricultural credit. The price support program with its various facets, including a type resurrection of payments in kind, have very definitely locked in on a predictable basis less total farm income, with prospect of further decreases. This has a definite relation to the diminuation of collateral that is being developed through production of farm products, with the consequential decrease in the availability of credit.

These decreases are naturally most harmful to those who would otherwise be deserving but unable to generate the necessary margins to grow and thereby create positive effects upon the economy.

A major concern of agricultural lenders is the inability of banks to obtain an assignment of the various ASC payments as collateral for their production loans. As the target prices of grain are lowered, it in turn lowers the amount of a loan that the producer can obtain from the Commodity Credit Corporation. In some cases, this is below production costs. With the inability to borrow against the various Government payments, it reduces the ability of banks to assist new young borrowers, or marginal borrowers, who do not have an equity position in real estate or machinery. This situation could easily be remedied by the USDA allowing the assignment of these payments.

The 1985 Farm Bill contained other provisions that exacerbate the restriction of agricultural credit. I refer specifically to the Clear Title provisions of Section 1324, which in practical application prohibits an absolute protection of the collateral through its prenotification procedures, in that it is physically and financially impossible to prenotify every buyer of farm products that would be available even though they might be identifiable. The other alternative of a Central Information System Notification providing protection for the farm product collateral is not obtainable by Nebraska and most other states without some modification of existing state laws and time to collect the necessary additional required data.

As the law becomes effective on December 24, 1986, prior to the time most states can act, it becomes an unusable portion of the law. It stands to reason that as security is rendered useless or destroyed, that the natural direct consequence is either an elimination of the credit advanceable or a tremendous increase of the cost thereof to cover the increased risk.

I feel it is most appropriate to additionally comment that, while not directly related, further liberalization of the bankruptcy laws and current court decisions have greatly contributed to the nonavailability of additional funds for agricultural expansion and production. The attitudes of individuals who have over-extended themselves and the acceptance by Congress of authorized techniques of extending the time of bankruptcy proceedings, of eliminating the true intent of adequate protection, of failing to penalize those for not acting in good faith, and for giving strength to the continuation of operations that have already demonstrated only the ability to fail, when added to the additional incentives for restriction such as Clear Title, such as guaranteed decreases in product prices, has not only nearly eliminated marginal credit, but will come close to having a demoralizing effect upon the agricultural economy as a whole.

Lest too much negativism becomes the basis of self-fulfilling prophecy, I think it is time to attack with the positives. Everything that we have has been derived from profit and it therefore follows that we must stop the public and private attack upon profit, and reinstate the incentive to produce. It is time for Congress to stop creating impediments for lending and to create incentive to produce. One of the characteristics of agricultural credit that has allowed us to progress in the past has been the availability of a maximum amount of credit with a minimum amount of collateral security. This was possible because our environment has—and must again—create confidence in the security, an integrity in the security, so that a lender has the greatest possible confidence in extending his credit.

Thank you for this opportunity to appear before you. Our association and industry stands ready to assist you in every way possible in restoring not only the confidence in agricultural lending, but the confidence and viability in the agricultural sector as a whole.

STATEMENT OF TIM L. WRAGE, PRESIDENT, FARM CRISIS COMMITTEE, EMERSON, NE

Thank you Mr. Chairman for the opportunity to speak before this hearing and I commend you for seeking the effects of the Food Security Act of 1985 on farmers in Nebraska.

The current farm bill was designed to reopen export markets to the U.S. that we had in the past or to gain us new markets. In early 1985 then Sec. of Ag John Block said that the price of corn needed to be around $2 per bushel to reach market clearing levels. Since that time the value of the U.S. dollar has declined nearly 30%, interest rates have declined nearly three percentage points and the import value of agricultural products has exceeded our export value for the last two reported months. And where is the price of corn? The new crop bid for corn at the local elevator is $1.25 per bushel. Farmers today are asking the same question they did in early 1985 "how low do prices have to go?" The new question is "how long must the price stay their once it is reached?"

President Reagan recently boasted of the fact that he has spent more on farm programs than any other president. This feeble phrase was made in Illinois trying to make us believe that he is compassionate. Mr. Chairman, you know that the quantity of money spent does not have a direct correlation to the quality of money spent!

The Food Security Act of 1985 is a debacle that should show the world how not to spend money. The farm bill and the $27+ billion that it will cost this year has brought us $1.25 corn, $4.50 beans, $.85 oats, $2.00 wheat and a broken economy made up of middle America.

Our small towns are suffering with business after business closing its doors. Our older citizens don't know whether their money in the local bank is safe and they have no where to shop. Taxes for real estate are too high in comparison to the prices received for crops. This affects our schools, the fire departments and our other services. As our citizens come under stressful periods I am afraid that the legislature will make decisions that will create adverse results in latter years.

What effect has the farm bill had on Nebraska farmers? Ervin, Stan, Bill, Joe, Ray, Steve, Don, and several more, they know, and they will not farm in 1987. These people come from the same town and they are good farmers. Not one of them bought high priced land in the 70's, went to Florida in the winter, over spent on machinery, nor were they excessive in other ways. Their crime was not being able to raise crops for the prices brought on by Ronald Reagan.

STATEMENT OF JACK FISHER, PRESIDENT, NEBRASKA LIVESTOCK FEEDERS ASSOCIATION

Senator Zorinsky and members of the Senate Committee on Agriculture, Nutrition and Forestry. My name is Jack Fisher and I am President of the Nebraska Livestock Feeders Association. I appreciate the opportunity to bring the feelings of my association toward the 1985 farm bill.

I will address the following issues:

I. *Dairy buy-out*—This program was a disaster to the beef industry. It's too bad that one segment of agriculture must suffer so much at the expense of another segment; expecially when the problem was caused by our government. The plan also cost the National Cattlemen's Association $113,674.50 in fees to force USDA to carry out the program properly. What the program cost the cattle industry of Nebraska is millions.

II. *Haying and grazing*—Many of our members wish that this option would never have been allowed.

III. *Clear title*—We really need legislation to allow agricultural products to move in commerce without the buyer of such products being constantly concerned that he may be caught having to pay for the product twice. The 1985 Farm Bill allows for either central indexing of liens or pre-notification from lending institutions. Since most states are not ready for the central indexing plan it is our understanding that congress is being lobbied heavily to extend the pre-notification deadline for two additional years. We are totally opposed to such an extension.

IV. *Sodbuster bill*—We are concerned that alfalfa, that is over five years old cannot be plowed if it is on erodable land.

V. *Delivery of corn*—Concern has been indicated by many members about the distance of the delivery of grain.

VI. *Stored grain*—Our members feel that farmers should be paid as much for storage of grain as commercial elevators.

VII. *Mandatory controls*—At a recent meeting of the standing committees of our Association there were several members and committees that expressed opposition toward mandatory controls.

VIII. *Beef check-off*—We are very pleased about the passage of the Beef Promotion and Research Order.

Thank you Senator for bringing this hearing to Nebraska and allowing us to discuss how the 1985 farm bill has affected us in the livestock business.

STATEMENT OF JOHN SULLIVAN, REPRESENTING MID-AMERICA DAIRYMEN, INC.

A point I would like to make is to urge policy makers to consider the long term, sometimes indirect effects, of agricultural policy decisions. Policies that reduce farm income can have catastrophic effects on the economy, especially in rural areas. The Food Security Act of 1985 lowered prices of most agriculture products and contains provisions that could continue to lower prices in future years. These lower prices reduce farm income which force large numbers of farmers out of business. The number of farms in Nebraska has already decreased by 12% since 1980. Not only are farmers forced out of business, reduced income from farming reduces the tax base and income that is needed to keep rural America alive. Without the tax base and farm incomes, what happens to county governments? What happens to rural bridges and roads? Policy makers who look to reduced farm prices and income to allocate economic resources must answer these questions.

Rural communities are being hit hard, not only by the depressed farm economy but also by reduced government spending at a time when these funds are needed most. With the farm economy in the midst of a harsh readjustment, where will the funds come from to keep rural America alive?

The funds should come from the market place.

The Whole Herd Termination Program, part of the Food Security Act, is moving forward to accomplish this goal.

Milk production in January of 1986 was 8% above January of 1985. July of 1986 was 1.5% below July of 1985. Because of this product change, market prices for the base commodities of cheese and butter are moving above support level and commodities purchased under the support program are being sold back into the trade. A trickle at the present time, but it is moving in the right direction. This program, coupled with the advertising program that is increasing per capita consumption of dairy products by approximately 4% per year since its inception, is a very positive affect and will enable dairymen to receive higher prices for milk.

The DTP will have a positive effect on beef cattle prices in the long run. Dairy cattle and their offspring represent 20% of all beef marketed in the U.S. The long term effect of removing 951,169 cows, 340,789 heifers and 257,995 calves from 13,988 production units should not be overlooked. Removing these animals from production during the termination program reduces the number of offspring that would have been raised and marketed as beef in future years. The removal of these future marketings will reduce retail beef supplies by 200 million pounds in 1988, 422 million pounds in 1989 and 490 million pounds in 1990 and beyond. This reduction in beef supply marketed will have positive effects on market prices for beef.

Any adverse effects on beef prices caused by the Whole Herd Buyout Program were of a very short term nature and were due mostly to an emotional market reaction rather than an actual flood of dairy cattle to the markets. This rection caused cattle prices to drop sharply for a short time in April but prices soon rebounded and are currently at prices above the same period last year. The government's commitment to purchase 400 million pounds of additional beef should have offset any short term adverse affect the program may have had. Those most hurt in the market by the buyout program were probably dairymen who had to sell light weight heifers for slaughter at $10.00-$15.00 per hundred less than their market value. Perhaps they should have been allowed to bring these animals to slaughter weight.

The Food Security Act of 1985 incudes a Dairy Export Incentive Program (section 153). This COULD be an effective program for helping to establish new export markets for U.S. dairy products. However, the program has not yet been put into action and certainly must not be a trade off for relaxing import quotas on dairy products.

The Food Security Act of 1985 also contains a program to promote the strengthening of the domestic casein industry. This program provides for the sale of C.C.C. stocks of nonfat dry milk at less than normal price to entities who would use the product to domestically manufacture casein.

This program should be amended to provide incentives for the use of skim milk for the manufacture of casein. Casein yields are higher when skim milk is used. Under the current program, milk is converted to nonfat dry milk, sold and put into C.C.C. stocks then sold, under the program, back to the dairy industry for conversion to casein. Considerable savings could be realized by the C.C.C. if skim milk use is allowed under this program and provide employment in rural areas where plants are located.

Another point of interest to the dairy industry and the American consumer is that of food labeling. It should be required that food products be labeled in a manner that allows consumers to evaluate foods on the basis of their true content. Marketers of substitutes and/or imitation products and of products that contain substitutes and/or imitation products should be required to label those products accordingly.

Currently it is difficult for the average consumer to readily determine the contents of their food purchases. Consumers may buy a food product labeled to contain cheese under the assumption that the product contains "real" cheese, when in actuality it may contain imitation or part imitation cheese. The first problem is that consumers find it harder to select products with the desired quality and composition of ingredients. The second problem is that future purchases of cheese products may be influenced by previous experiences with a product that actually contained imitation or substitute cheese that is not tasty. This is just one example.

It should be required that food products be labeled according to their actual contents, so that consumers are allowed to make informed purchases and dairy producers are allowed to realize the full value of their products marketed in the "real", quality form. The markets of substitutes or imitation products should be required to describe the products as "imitation" or containing "imitations".

Another area that calls for your renewed attention is the school lunch program, specifically the special milk program. Reduction in this program resulted in a 90% reduction in the amount of milk served to school children between 1981 and 1984, from 1.5 billion ½ pints in 1981 to 175.1 million in 1984. This program is one of the few that assures that those in need receive the intended benefits. The Federal Government has expressed concern for the amount of surplus dairy products, yet has reduced the amount of milk available to the children of the country. Is it not better to reduce surpluses while at the same time assuring proper nutrition of this countries' children? Isn't the special milk program a program that will help children develop proper nutrition and dietary habits that they will carry with them to adulthood? We think this program can do these things, and we think it is important that they are restored to previous levels.

I would like to make public with this testimony that 40% of the cost of the DTP is being payed by the dairymen. Personally, almost $800 per month the last three months has been deducted from my milk check for the DTP.

Though the DTP will accomplish its goal of reducing production in the short term, dairymen, nation-wide, like the wheat farmer, are looking at a supply management program for the future.

Lately, we read much about the American Steel Industry being bankrupt. This is understandable when you consider the largest consumer of steel, Agriculture, is suffering a financial depression.

Dairy farmers are not immune to the financial depression I speak of. I know dairymen in at least 15 states and meet with them regularly. I do not know of one dairymen whose income will pay their expense at the present time.

I would be amiss if I did not mention the high cost of interest to agriculture at a time when the prime rate is 5.5% and agricultural producers trying to pay 12% to 14%. Something should be done so the American farmer pays no more than the countries America loans money to that compete with us.

In closing, I would like to thank Senator Zorinsky, etc. in allowing me the opportunity to testify today. If, in your good judgement, you can find any way to convince your colleagues in Washington to renew the Special Milk Program to 1980 levels, you will not only be doing the dairy industry, but all American children a great service.

STATEMENT OF PAUL UNDERWOOD, PRESIDENT, NEBRASKA GRAIN SORGHUM PRODUCERS ASSOCIATION

We, the Nebraska Sorghum Producers Association would like to commend you and your staff for the positive representation you provide in Washington.

We have several areas of concern as to the effect that the 1985 Farm Bill has on our rural economy.

Program payments: On the positive side of the program payment, is the deficiency advance payment. This has helped many of us who are struggling with cash flow problems. We do, however, need the balance of the deficiency payments over a shorter time period. We also feel a lowering of target and loan prices will offset any positive good of this 1985 program.

Program announcement: Please support us in encouraging the administration to announce the programs on a more timely basis. We realize the complexity involved in the decision making process in Washington, but we also know that we, as farmers, rely on timely program information.

Export programs: We feel a continued need on increased export pressure if our current program is to survive. We feel the Export Enhancement Program (EEP) needs to be broadened to include feed grains as well as wheat. We feel the EEP will have to be made available to not only Russia, but our reliable customers if we are to have an influence in the world market today.

Grain quality: We feel our grain is going to have to be exported in better condition. We as sorghum producers hope you will support the changes in our grading standards which we have proposed. We feel these changes will help clear up some of the problems associated with export grain quality.

GRADING STANDARD PROPOSAL

(1) The percentage of brown sorghum kernels allowed in yellow sorghum should be reduced from 10.0% to 3.0%..

(2) Broken kernels and foreign material should be reported as two separate grade determing factors as follows:

[In percent]

Grade	Current BKFM	Proposed BK	Proposed FM
No. 1	4.0	2.0	1.0
No. 2	8.0	4.0	2.0
No. 3	12.0	6.0	4.0
No. 4	15.0	8.0	6.0

Storage: We feel incentives for on farm storage are a must in this type of farm program. We feel increased storage rates and the availability of facility loans are badly needed. Tax incentive, such as, 5 year depreciation on storage facililties and personal property tax exemption during the pay off period of grain storage facilities would be very beneficial.

Program alternatives: The present farm program must be altered to fit the needs of the American farmer if either are to survive. In the future, we ask your support in letting us, the farmer, have more direct voice in the destiny of our future.

Program alternatives could be channelled through the state ASCS office so that we, the producer, would have the opportunity to vote on program alternatives. This vote voice would serve as a tool for you in the Senate, the House and the Administration in planning a sound workable farm program.

[The following material was submitted by D.D. "Bud" Riblett, Vice President and Loan Officer, Farmers and Merchants Bank, Milford, NE]

PROCESSING FMHA AGRICULTURAL GUARANTEED LOANS

The present system of processing FmHA Agricultural Guaranteed loans requires that all loan dockets be submitted and processed in the local FmHA county office having jurisdiction over the county in which the farmer resides. This takes a considerable amount of time involved because the local FmHA office is woefully understaffed, even with temporary help to handle their present direct loan programs and servicing without the addition of the guarantee program.

To offset this workload, the Administration hired contractors to come into the FmHA county office and process and service the guarantee programs. Even though each contractor follows the same regulation in the FmHA county office, there is still a wide variance in processing loan dockets for the FmHA county office throughout the state. There is also a severe time lag. For example, a guaranteed FmHA operating loan was submitted to a FmHA county office on February 26, 1986. No communication what-so-ever was received until June 27, 1986 when the loan was approved. This is not intended to criticize the FmHA personnel because they are working as hard as they can. Their present workload does not permit them to process these loans any quicker.

No Congressional action is needed. The Secretary of Agriculture could authorize the Administrator of FmHA to designate a well qualified FmHA permanent employee on the FmHA District Stafff to process all guarantee loans in that district. This would provide for a unified method of processing in a shorter length of time. The FmHA area committee would still certify as to eligibility of the applicant. If a contractor was hired on a district basis instead of a county basis, the time lag would be somewhat longer but it would be more unified than the present system.

If it takes longer than 60 days for FmHA to process a guaranteed agricultural loan, the farmer's credit needs are at a standstill unless the lender advances credit until the guarantee loan is approved. This is very hazardous for the lender and could hold up crop production at a critical time.

ALLOTMENTS OF FmHA GUARANTEED FARM OWNERSHIP LOAN AUTHORITY

The Farmers Home Administration has a very fine loan program in the Guaranteed Farm Ownership loan authority. However, the conservative allotment of only one farm ownership loan per FmHA county office per fiscal year is an impossible situation. If there are 20 lenders in a FmHA county office area, it will be nineteen years before some farmers could receive a FmHA guaranteed farm ownership loan.

The present agreement between the Secretary of Agriculture and the Director of the Office of Management and Budget requires that the U.S. Treasury hold $1 in reserve for every $1 in the FmHA guaranteed loan program. This ratio tells the public that the Government is holding $1 in reserve because every $1 of loan guarantee may default. This is poor public relations. It is only a paper transaction because the lender loans the money to the farmer, the government doesn't.

A recent survey indicates that loan losses are approximately 5% and Administrative costs are 5%. Therefore the Treasury needs to hold only 10¢ in reserve for every FmHA loan dollar that is guaranteed. This increases the loan authority by 900% at no increase in the present U.S. default budget estimates to be 132 billion dollars for fiscal 1986.

No action by the Congress is required. If the American people will support the American farmer and request that the best use be made of the taxpayer's dollar, then the President of the United States can issue an executive order to the Office of Management and Budget rescinding the requirement that the Treasury hold $1 in reserve for every FmHA loan dollar that is guaranteed. The removal of this paper transaction would allow the National FmHA Guaranteed Farm Ownership loan authority to function as Congress intended that it should.

The present surplus of agricultural grain on hand today with the expected production of 1986 farm crops world wide, will far exceed the most optimistic estimate of demand requests throughout the world.

In order to return supply and demand on a somewhat equal status, 1987 U.S. crop production must be cut drastically.

If the Administration will set an example to follow in reducing crop surpluses, then the government must take all agricultural land in government inventory from default and put this land to its best use.

For example, one FmHA county office expects to have 50 Nebraska farms in inventory by January 1, 1987. With a national average of 457 acres per farm x 50 farms equals 22,850 acres in two Nebraska counties.

Using a national average of 457 acres per farm times 7700 FmHA county offices throughout the nation times only 10 farms per county office, this would estimate 35,189,000 acres that could be taken out of crop production. This expected land in inventory can only be rented to farmers for cash. No ASC allotments transfer to a tract of land taken into government inventory. Therefore farmers will rent this land and farm it fence row to fence row because of no allotment restrictions and no price support available. By regulation, the government land cannot qualify for price support on crops thereby competing against the American farmer.

Today, FmHA nation wide, is proposing to hire land managers to manage this land. The Soil Conservation Service has been requested to develop a land use map for each farm. This means that each FmHA county office with agricultural land in inventory will have to manage the projects. At present, with temporary help, FmHA county offices still cannot properly handle the present loan programs they have without additional responsibilities.

Therefore, it is recommended that FmHA transfer all agricultural land in inventory to the Department of Interior. The Department of Interior should be required to request that the Soil Conservation Service develop a land use map for each tract of land. When this land use map is developed, only that land that is suited for crop production be sold to the American farmer based upon a allotment consistent with the supply and demand ratio for each agricultural crop. That land not suited for crop production should be returned to its best use and not offered for sale until the land development is completed and the allotment for crop acres reduced to zero.

It would be cheaper for the tax payer to have the government reclassify and develop this inventory land for its best use than to sell the land and require the private sector to purchase and develop the land under government compliance.

STATEMENT OF MICHAEL V. DUNN ON BEHALF OF THE FARM CREDIT BANKS OF OMAHA

Thank you, Senator Zorinksy, for allowing me the opportunity to testify before your committee today. Recent headlines and financial information that I have supplied to you previously certainly indicate that the Farm Credit Banks of Omaha are experiencing difficult times. As we are a cooperative agricultural lending institution and the farmers and ranchers that make up our membership are experiencing difficult times, it stands to reason that as a lender that solely deals in agriculture we also are having difficult times.

The numbers are grim . . . to pick out a few particularly significant ones, the combined FCBO losses through the second quarter total $194.3 million. The Federal Land Bank has received $156 million in system assistance this year, in addition to

$177 million last year. Non-earning assets in the combined operating units totalled $1.3 billion while our accruing loan volume totals $4.9 billion.

How did we get into this situation? Farm financial problems are a result of interaction between farm income before the principal and interest payment for land, farm asset values (primarily land), the U.S., and world economy. The key variables that influence farm income are crop and livestock prices, yields, and production costs. Farm real estate values depend on expectations of future farm income levels, interest rates, and inflation. Real estate values increase when farm incomes increase, interest rates decrease, and when the rate of inflation is greater than the interest rate. This last point is confusing, but easy to explain. If inflation is at 10 percent while interest rates are at 5 percent, individuals take their money out of interest-bearing investments (savings accounts, CDs, money markets, etc.) and buy assets (real estate). In other words, farm land can have value as a store of wealth in addition to the value from crop or livestock production.

WHY DO WE HAVE PROBLEMS NOW?

To understand current problems, one has to retrace agriculture history back to 1960. As a specific example, I have charted the following relevant factors for an acre of irrigated cropland in Central Nebraska (yield is 140 bushels of corn per acre):

Corn Prices: Average annual farm price.

Net Rent: Represents the farm income per acre before any debt payment for land. The maximum rent a farm operator would pay is the difference between the revenue per acre (price times yield) and the cash production costs (seed, fertilizer, chemicals, repairs, fuel, operating interest, and overhead).

Interest Rates: Federal Land Bank rate, rate banks charge their best customers (commercial rate), and the real interest rate (FLB rate minus the consumer price index inflation rate).

Debt Service: Annual principal and interest payment associated with purchase of an acre of land in a specific year.

Land Values: The per acre value of the land.

HISTORICAL PERSPECTIVE

Event	Result
1960–1972	
Relatively constant prices; Relatively constant interest rates; U.S. exports only 10 million metric, tons of corn; Government support prices using acreage reduction programs.	Net rent and debt service, are equivalent; Land values increase slowly; No problems with servicing debt payments for land; Orderly change in asset; ownership from the least efficient to most efficient producers
1973–1974	
U.S. exports expand dramatically; Prices increase; Lack of effective government programs to idle acreage create incentives to plant fence row to fence row; U.S. personal income increases red meat consumption.	Farm income (net rent) improves much faster than debt service; Farmers begin to consider expansion
1975–1981	
Declining value of dollar and growing foreign economies fuel export boom (U.S. exports increase, to over 50 million metric tons); Period of high inflation but regulated (thus low) interest rates; U.S. producers increase productivity to match increased demand; Crop prices in real terms equivalent to pre-export boom levels; Government programs include high support prices.	Net rent relatively constant; Debt service significantly exceeds income generating potential; Low interest rate, high inflation combination drives bids for farm land substantially above repayment ability from crop production; Farmers enjoy paper profits (increased net worth); Too many farmers stay in farming based on paper profits and government programs that support U.S. prices above world market prices
1982–1985	
U.S. Federal Reserve lets interest rates increase to unprecedented levels; High value of the dollar and world recession slows demand for U.S. exports; Red meat consumption levels off; Significantly lower inflation; Crop prices collapse; Foreign production increases due to high U.S. government support prices; Drought in Midwest (1983).	Net rent falls in real terms; Land values collapse (50% drop in Nebraska); Farmers who borrowed in late 70s and early 80s can't service debt

1986

A previously homogeneous farm sectors is now characterized by: (a) Highly profitable farm operators with little debt. (b) A middle group with moderate debt that may survive. (c) An over-leveraged group that can't survive.

This has been the stimulus for one of the greatest declines in agricultural land values ever witnessed. Although we're seeing a slowing down in the decline of land values in the last few quarters, the fact is that since its peaks in the early 80s, agricultural land values have fallen $240 billion nationwide with $60 billion (25 percent of that decline) in the four states that make up the Farm Credit Banks of Omaha District, and half of that decline took place in one year alone, 1985. Land values continue to fall but at a lower decline of 12 to 18 percent per annum. In Nebraska, we have seen a decline of farm value from $34.773 billion in its peak in 1981 to $17.185 billion on February 1, 1986 according to USDA. This has been a loss of $17.588 billion or a 51 percent decline. This tremendous decline in ag land values is taking a toll on the farmers and ranchers and their lenders in the state of Nebraska.

As stated earlier, the farm financial problems are a result of interaction between farm income before the principal and interest payment for land, farm asset values, and the U.S. and world economies. The key variables that influence farm income are crop and livestock prices, yields and production costs. Farm real estate values depend upon expectations of future farm income levels, interest rates and inflation. Below, I've constructed some tables for Nebraska land values for irrigated and dry land. In this chart, I am assuming a 30 percent down payment with a nine percent interest rate. This chart would indicate that given that interest rate and current production costs, both irrigated and dry land are currently at a level below the land value estimate based upon production. This assumes the corn price of $2.42 which represents the 1986 target price less the 20 percent acreage reduction program (ARP). This is one possibility of why ag land devaluation has begun to slow down. However, when a $2.20 per bushel price of corn which is the 1990 target price less the 20 percent ARP is put into the chart, we see that the land value estimate for both irrigated and dry land slips into a negative figure, a two percent and six percent decline respectively. And if a December, 1987 futures estimates of $2.00 per bushel is applied, we see that both irrigated and dry land value estimates would have a further decline, 38 percent and 33 percent respectively.

NEBRASKA LAND VALUE

Corn price ($ per bushel)	Land value estimate($ per acre)	Current land value ($ per acre)	Percent difference between estimate and current
Irrigated:			
2.42	1,180	860	+37
2.20	843	860	−2
2.00	536	860	−38
Dry land:			
2.42	826	669	+23
2.20	629	669	−6
2.00	449	669	−33

Notes:

(1) Corn prices represent 1986 target price less 20 percent ARP ($2.42), 1990 target price less 20 percent ARP ($2.20) and a long-run estimate of corn prices (December 1987 futures are at $1.98).

(2) Costs and yields come from University of Nebraska, Extension Service Publications. Costs represent the cash costs plus storage updated to a 1986 estimate. Irrigated yields are 145 bushels per acre, while dry land are 85 bushels per acre.

(3) All values assume a nine percent capitalization rate.

(4) The following are approximations for the 1985–1986 year.

30 percent of those buying land did not finance the purchase, 70 percent used debt financing.

Of the 70 percent who financed, they used a 30 percent down payment; 38 percent used a commercial bank, 32 percent were seller financed, 16 percent use FLBAs, and 16 percent use some other financing arrangement.

75 percent of the land that changed hands went from one farmer to another.

Senator, we present this chart to demonstrate to you the impact that price in one commodity area (corn) has on the value of agricultural land. As I've pointed out, there are other factors which also have an impact on this valuation. However, our studies indicate that there is a great sensitivity to commodity price. As I have indicated, we have already suffered a 50 percent decline in agricultural land values in the state of Nebraska and that has had a tremendous impact on the wealth of individuals, financial and agricultural establishments, and the state. Many of the Farm Credit Banks of Omaha directors and officers have stated repeatedly over the past two years that agricultural problems primarily come down to a matter of lack of profitability. I hope that your hearing here today helps you and your committee to further understand the problems facing agriculture and that the input provided will assist you in finding solutions to return profitability to agriculture.

I thank you for allowing the time to submit this information. If I can answer any questions or clarify anything presented, I would be willing to do so at this time.

STATEMENT OF RALPH E. O'CONNOR, CHAIRMAN, NEBRASKA GASOHOL COMMITTEE

In my present role as chairman of the Nebraska Gasohol Committee, I will focus my comments on two specific provisions of the 1985 Food Security Act. The first provision authorizes the Commodity Credit Corporation to make commodities available for sale at no or reduced cost to encourage production of liquid fuels. I commend your efforts to include this provision because it provides an opportunity to dispose of a small portion of this country's grain glut. More importantly, this C.C.C. option is currently being exercised in order to assist the United States fuel ethanol industry. Disappearance of this grain immediately eliminates storage costs for the grain while offering the potential for a positive grain price response. Frankly, I was surprised that the decision to use this C.C.C. provision in the Farm Bill was used by Secretary Lyng. The U.S.D.A. has not traditionally been supportive of the ethanol industry. I suspect that were it not for the insistance of farm state senators this provision would not be used. I want to also commend Senators Zorinsky and Exon for asking the General Accounting Office to prepare a study which examines the use of C.C.C. stocks as collateral to stimulate additional ethanol production. If this new study is consistent with a 1984 GAO study, the conclusion will be that ethanol production provides a positive boost to our economy. The 1984 GAO study pointed out benefits of the ethanol industry in the following areas:

Domestic economic improvements resulting from job creation, reduced grain storage and deficiency payments, new capital investment and value added grain processing;

International trade improvements resulting from reduced oil imports because of ethanol substitution and increased exports of corn gluten and distillers grains;

Enhanced national security because of reduced imports from the Middle East and other politically unstable regions; and,

Development of a reliable new domestic market for grain.

For all of these same reasons, it continues to make sense to support development of a domestic fuel ethanol industry. Those of us involved in agriculture have shown the ability to be the best grain producers in the world. We now need to steer agricultural policy in a direction which provides reliable markets for U.S. grain. The fuel ethanol industry has proven to be one such market. Encouraging the growth of this market through public policy can directly benefit grain producing states like Nebraska.

The second area of the Farm Bill relating to ethanol is the requirement that the Secretary study the cost effectiveness, economic benefits and feasibility of establishing, maintaining and using a Strategic Ethanol Reserve, in relation to the existing Strategic Ethanol Reserve.

In conjunction with the existing C.C.C. authority, the U.S.D.A. could stimulate a significant increase in domestic ethanol production without disrupting the current ethanol market. A Strategic Ethanol Reserve could serve as a repository for fuel ethanol produced under supply contracts with the federal government. These supply contracts could be similar to similar contracts used by the Synthetic Fuels Corporation.

The guaranteed market would provide a strong incentive for investment in new ethanol production facilities. Depending on the fill rate for this Reserve, ethanol project financiers would be certain of guaranteed demand and revenue for ethanol produced in response to such a program. In turn, this certainty would instill investor confidence and attract capital to the ethanol industry. Storage facilities for a Strategic Ethanol Reserve could include idle storage at military installations, petroleum refineries and pipeline terminals, air bases and other locations which are unused or under utilized. New storage would not necessarily be required, particularly if idle petroleum storage was used. An additional advantage of storing ethanol in existing petroleum storage sites would be the proximity to refineries or pipeline terminals. In the event of another oil supply disruption, the ethanol would already be in geographic areas where it would be readily incorporated into existing liquid fuel transportation systems. In the event this ethanol was not needed in future years it could be used as part of the U.S. military fuel supply. Another option would be to use it to displace a portion of the gasoline used by federal government vehicles. In either case, it need not disrupt current commercial ethanol markets. The fuel would also store more easily and its quality could be maintained easier than much of the grain now going into on-ground or barge storage.

Other advantages of a Strategic Ethanol Reserve would be: the ability to reduce grain supplies; a reduction in grain storage and deficiency payments; a reduction in the amount of out-of-condition grain on the market and the creation of new job opportunities in rural America. Considering that these advantages should be a goal of a program designed to assist grain producers, the concept of a Strategic Ethanol Reserve should be given serious consideration.

As a Nebraska grain producer, I also want to point out a couple additional aspects of the current farm program that cause me concern.

Under present agricultural conditions, any individual or corporation producing an edible product for consumption by humans or livestock is facing extremely difficult financial challenges. It may be only a matter of time before even the best financial managers in the agricultural sector will be facing bankruptcy courts. In the end, evey they may be prime candidates for the cheese and bread lines.

A great number of problems in the present farm program need the immediate attention of both the United States Congress as well as the executive branch if the agricultural industry is going to move forward in an orderly fashion.

Off hand, I suggest the federal government initiate a rapid write-off program for on farm grain storage facilities similar to the program that was in effect during the early 1950's. The reason for such a program is that the return on initial investment occurs in a short period of time. It would also place the grain in a position where a producer could utilize it through his own farming operation. It also would improve the quality of the grain for the simple reason that every time you move any agricultural commodity such as corn, wheat or milo you decrease the quality and the end result is a lower quality product being offered on the world market.

The present construction of temporary storage facilities, sometimes known as bunkers, prefabricated and erected from nothing more than an all-weather plywood material and covered with a plastic tarpoline, leave something to be desired.

Let's not forget that one of our major export problems today is delivering a product that will equal the quality of other exporting nations. These temporary storage facilities will ultimately result in more out-of-condition grain in the near future.

Another major problem in the program is the $50,000.00 limit that is placed on farmers. I realize that abuses have occurred under past programs. Loans in the present program have nothing to do with the $50,000.00 limit. The deficiency payment is the only item under the $50,000.00 limit. In a recent article, a U.S.D.A. official said all of the payments over the limit of $50,000.00 must be justified by local officials before they are cleared from the surveillance file. I question what kind of clearance is available in one section of the nation when it is totally impossible to get the same consideration in other parts of this country.

The $50,000.00 limitation has its merits but there are certain elements that should be considered in making the decision as to what constitutes ownership. For example, what about family corporations where more than one stockholder or director is involved? At this time I would like to have the privilege of leading you through a bona fide example of a small corporation in Fillmore County, Nebraska.

First of all, it is owned by four stockholders from two different families. The corporation was formed for the sole purpose of estate planning and at the present time consists of ownership of real estate. The farm is operated by the family corporation and land is leased from the parent stockholder for the sole purpose of operating the farm in a more efficient manner.

This farm has 650 acres of corn with an established yield of 125 bushels per acre and also 200 acres of wheat with an established yield of 38 bushels per acre. The total acreage for the year of 1986 production is 850 acres. 650 acres of corn × 125 bushels per acre = 81,250 bushels of corn.

The deficiency payment in cash would be as follows:

81,250 × $.63 = $51,187.00
200 acres of wheat × 38 bushels per acre = 7,600 bushels of wheat
7,600 × $1.38 = $10,488.00

Therefore the total feed grain deficiency payment of $51,187.00 plus $10,488.00 deficiency payment for the wheat program comes to a total of $61,675.00.

In this case, this family corporation has been penalized $11,675.00 simply because of the $50,000 limitation.

In this case, where the stockholders have pooled their resources for items such as the land that was cash rented to the corporation for operation purposes only, should be entitled to a total of $200,000.00 for deficiency payments that would be available to this operation for the 1986 crop year.

By comparison if corporate officers or directors manage the corporation rather than stockholders, a different situation exists because this does not constitute ownership of such property in the combined operation as set forth in the above example.

To simplify the eligibility of stockholders you simply have to list them with your local Agricultural Stabilization and Conservation office.

In fact, in this case the local office already has these names on file.

In closing, the farm bill problems noted above should be corrected. I want to thank you and fully appreciate the opportunity to have a part in this hearing.

STATEMENT OF FRANK WICKETT, LAUREL, NE

My wife and I milk 45 cows with a hundred head of dairy stock to feed every day. We have 15 sows that we farrow and market 240 fat hogs a year. We also have 530 acres of land to farm. On some days things are left unfinished.

My farm is rented by share cropping. It is in the state of decay. You wake up in the morning and another fence post is broken off due to rot. The barbed wire is rusty. It snaps with the slightest pressure from an old cow. I know better than to ask the landlord for money to repair things.

The other farm I operate is rented share cropping, too. It has completely decayed away. In another 2000 years you can call it the new Brea tar pits. The 1985 farm bill has put my landlord grandmother on welfare, dandy. The 240-acre farm and her savings have been supporting her meagerly for 10 years, but now in 1986 it is lights out. Even with the past farm bills, I don't have a grain bin on that farm to put the 1986 crops in and all bins in town are full.

My main source of income is the milk I sell. The milk price is being affected by imports. The AMPI Dairyman Digest article said "casine imports run rampant during 1985. 248 million pounds a record level. And were equivalent to 85% of the non-fat dry milk purchases by the CCC." Therefore in my opinion the taxpayer is subsidizing dairy farmers in foreign countries. I also maintain that if all foreign imports were stopped. The U.S. dairy farmers cannot feed the American people.

There would be a short term shortage of magnitude. The American consumer and the U.S. Government have to be convinced that it is O.K. to have a food (milk) reserve and the dairy families get 100% of parity for their product. This will maintain their economic well being in the food chain.

These milk imports are not to be scoffed at. 248 million pounds is equivalent to 2.48 billion pounds of off farm liquid milk. It puts 8,000 dairy farmers out of business with 300,000 pounds of milk production a year. It puts 4,800 dairy farms like mine out of business. Does the USDA and Reagan administration really know what they are doing? It is plain to see they need political guidance.

Because we have a milk surplus due to imports, it doesn't justify society to lower our farm prices for its gain. The surplus can't be used as a wipe to drive dairy farmers out of business. It is a capitalistic system but needs to be moderated by a democracy. Under present policies milk product disappearance is taken up by imports.

I want to commend every Senator and their aides in stopping Masstock Corporation from going to Georgia. I maintain if there is a need for milk in that area and so much profit in dairying. The bankers can loan money for new start up facilities to farmers. Congratulations are also in order for tariffs on live hogs and a new tariff on the foreign packaged pork would wrap it up.

Comments of the 1985 farm bill are as follows:

1. 1985 farm bill didn't label meat of foreign origin.
2. 1985 farm bill didn't lower the price of new farm machinery.
3. 1985 farm bill has lowered the price of land per acre.
4. The 1985 farm bill didn't stop Tri-County Coop from going broke in Laurel, NE. It didn't get a block grant to start up again either.
5. 1985 farm bill stopped the total collapse of the midwest.
6. 1985 farm bill let me plant my 1986 corn crop which is next to worthless. $1.27 going into the Laurel elevators. Prices are still falling on the free market.
7. 1985 farm bill didn't help my brother-in-law. The bank foreclosed on him.
8. 1985 farm bill didn't get me $30,000 of gross income.
9. 1985 farm bill didn't get my 1981 $12.95 grade B price levels back. $10.42 includes dairy herd buy out at this time. This is 19.5% loss of income.

Congress should take a hard look at Conglomerates in relation to farming. I maintain there is no competition before the farm or after the farm. Cargill owns, chemical company, Ciba-Gige. They sell high priced herbicide to farmers. Ciba-Gige owns Funks seeds. Funks sell high priced seed corn to farmers. Cargill also sells its brand of seed under the Cargill label one or two dollars near the Funks price. Where is the competition and free market at? Another example Continental grain owns Wayne Feeds. They sell farmers high priced pelleted feed for cattle and hogs. Then Con-Agra owns Armour. They pay cheap prices for cattle and hogs which consumed their high priced pelleted feed. The farmer has all the risk. These corporations and Chicago board of trade don't care what a farmer receives when he sells his grain, his hogs, or his cattle. All the Multi-Nationals have to do is handle the movement of insecticides, fertilizers, herbicides, corn seed, and animals going to the farm and off the farm. Conglomerates are not aggressively competitive in the market place. The practices of these farm related conglomerates make prices low for farmer selling and prices high when farmer buying occurs. The conglomerates need broken up into separate entities.

My farm is on a 2 to 1 asset to debt ratio. I am on the critical list. If I go deeper in debt I will go under. But yet the only way to keep the farm operation going is to get deeper into debt. The way farm prices are it is suicidal. Economic collapse might be the answer.

In general too, I don't think a shortage of milk, meat, grain and other products in the world is the answer either. Higher prices shouldn't be obtained by shortages. We need a form of management to insure profit and no shortages. Some how my farm and the U.S.A. needs a little surplus in a reserve so we can make it through a 2 or 3 years nation wide drought weather pattern. The administration is not looking ahead. Reagan is hiding his head behind a free market system hoping the food supply won't meet with doomsday. Free market theory isn't working in agriculture. My proof is bank failures, farm bankruptcy, and farm demonstrations. There has to be a way for the farmer to make a good living, realize a profit, have a future, have money in the bank, grain in the bins, hogs and cattle in the feed yard, and milk cows in the barn. This way the consumer in this country as a society will have bread and cereal on the shelf, meat at the counter, and milk in the cooler. It is unconscionable to me that society goes along with the administration policies.

Some of us farmers believe that parity is a good word. 100% of parity even sounds better to me. I would cut my milk production if I could get 100% of parity for a reward. Right now we are milking cows at 41% of parity. 62% parity for raising hogs. Free market corn at $1.35 is 25% parity. We say we need 100% of parity again, again, and again. This is just a number. 7% unemployment is just a number. 4% inflation rate is just a number. 3.2% growth rate in Gross National Product is just a number. Prime rate of 5.5% is just a number. The federal government runs the country with these numbers and indicators. Well, why can't the U.S. government run the agricultural policies on the numbers. One number they have used is 100% of parity.

New housing starts are down so Federal Reserve Members, Cargill family being one, decided to lower the prime rate. I have been wanting lower interest rates for years but my voice is not heard. I thought it was counter productive to raise the prime in the first place. Once again Cargill just handling the movement. I wonder how Cargill will take the movement of John Deere Corporation having a 39 million dollar loss in its last quarter of business cycle. If farm prices don't increase to 100% of parity, John Deere could go under. The whole agricultural sector is in jeopardy!

One role of the federal government is to watch out for any and all sectors of its people. It should make sure one sector doesn't take unfair advantage. If farmers are saying that they are being persecuted and need the scales balanced, that the free market isn't working, government must fix it with what is left. Parity is what's left.

In conclusion food production in this country is a complex system. Food is taken for granted. It is so cheap that they have contest with it. Some things I have said are incorrectly perceived by me but they needed saying. Farmers should get a fair price for their products and a good return on their investment. The consumer, the middle man, and USDA have to be convinced that 22.4 bu. of corn per person and 7.77 bu. of wheat per person is not a lot in reserve. As of Aug. 22, 1986 the CCC has one pound of butter per person in storage and 1.9 pounds of cheese in storage. 3.3 pounds of dry powered milk are in storage. These reserves shouldn't be used to drive down our farm prices.

The administration talks about human righs to the Russians. I question if they know what a farmers economic human rights are. The U.S. government and the American people have to tread lightly on its farmers when food reserves are present.

I want to thank Senator Zorinsky and Senator Exon for letting me testify today. It has been an effort and a pleasure for me. Thank you.

Statement of Hon. Tom Vickers, a Nebraska State Senator

Mr. Chairman, members of the Committee, thank you for the opportunity to testify before you today.

By way of introduction, I am Tom Vickers, a rancher and state legislator from Farnam, Nebraska. I raise cattle and hogs, and I do not participate in any Federal farm program.

A great deal of confusion, and growing outrage, surrounds Federal Farm Policy today. People—non-farmers and farmers alike—are asking: How is it possible, after four years of record-high federal subsidies, that agriculture remains mired in its worst crisis since the Great Depression? How is it that some farmers—say, large cotton farmers in the San Joaquin Valley of California, for instance,—are reaping over $1 million each in federal payments, while others—say, small grain producers in central Nebraska, for example—face foreclosure? How is it possible, people are asking, that the world's number one agricultural producer, the United States, now imports more in farm products than it exports?

If the perplexities of federal farm policy are to be untangled, if agriculture is to survive and thrive, these and other tough questions must be honestly addressed and answered. No amount of high-sounding political rhetoric can shield any longer the failed farm policies of the past and present. Like its predecessor, the 1985 Farm Bill stands as a monument to Murphy's Law—if anything can go wrong it will go wrong.

The mess agriculture faces today is in the end not really surprising at all. Agriculture programs are a philsophical jungle of multiple, conflicting, and contradictory objectives. Most farmers know it. And every policymaker who has dealt seriously with agricultural policy knows it, too. Now, its time for policymakers to admit it. Symbols, slogans, and superficialities can no longer substitute for sound agricultural policy.

Mr. Chairman, the fundamental contradictions in Federal Farm Policy are not susceptible to fine tuning. Like the federal tax code, what is needed in agricultural policy is a complete overhaul.

We can begin, I believe, by stripping away a couple of myths that distort debate over current farm policy.

First, expansion of export markets is not a solution to our agricultural problem. Indeed, to propose it as a solution is to offer farmers only false hopes. As much as we might wish otherwise, the fact is that the United States is now the world's residual supplier of food. The know-how that made U.S. farmers dominant in the marketplace of the 1970s has spread around the globe. As a consequence, new export opportunities are severely limited and will remain so.

Second, low commodity prices are a symptom of the illness that bedevils agriculture, not the illness itself. Commodity prices have always been too low. But we need to talk less about low commodity prices and more about why they are low.

Quite simply, we need to address head-on the supply side of agriculture. The crisis in agriculture today is a crisis of plenty.

And this "supply-side problem" has been exacerbated, if not wholly created, by Federal policies. While the demand for farm products declines, Federal policies have provided incentives for farmers to produce more not less, and to expand their operations beyond the economic efficiencies of a truly free-market system.

In a truly free-market system, economies of scale are reached quite quickly in agriculture. According to studies conducted by USDA and supported by the Congressional Research Service, the typical Pacific Northwest wheat farm reaches 90 percent of efficiency at 450 acres and $54,000 (in 1979 dollars) of sales. To reach 100 percent of efficiency, that same farm must increase over four-fold, to 1,890 acres yielding $156,000 (in 1979 dollars) in sales.

Why is this important? For two reasons. First, at a certain point, say going from 90 to 100 percent of economic efficiency, production costs increase per unit of commodity rather than decline. In other words, farms don't get better, they just get bigger. Second, the national average unit cost of production for commodities is the basis for determining the benefits in most present Federal farm programs.

What's it all mean? First, it means that all of the incentives are tilted towards expansion, expansion beyond any rational scale of economic efficiency. The bigger you are, the better the hand dealt by the Federal government. Second, the smaller farmer, the one who tries to abide by some rational scale of economic efficiency, suffers from low commodity prices driven by the surpluses fed by the incentives of government policy to produce more and more.

Mr. Chairman, if my analysis is correct—and it's not original with me, but supported by many agricultural economists—then we need to reverse the incentives provided in Federal Farm Programs. We need not a fine-tuning or mid-course correction of present policy, but a complete overhaul. We need to reverse the policies that encourage farms to become larger than free-market principles of economic efficiency dictate.

For openers, I suggest that federal policymakers consider placing a bushel, instead of an acreage, limitation in federal farm programs. In other words, let the government provide an appropriate loan and target price to farmers for the first 15,000 bushels of grain (or whatever is appropriate). Beyond that amount, the government should say, 'produce as much as you want, but the Federal government just won't pay you for doing so.' In short, above a certain level of production, the free market would dictate prices. In the short-run, Mr. Chairman, such a program would significantly curtail the costs of agricultural programs. Over the long term, farmers would be encouraged to scale back production to a level commensurate with scales of economic efficiency, and commodity prices would rise as supply is brought more in line with demand.

Admittedly, this is just a broad outline of a farm policy proposal. It requires a lot of flesh. But I believe it would head us in the right direction. I believe it makes sense. But if your colleagues in Washington, D.C., aren't prepared to talk farm sense, tell them at least not to pretend that an expensive policy failure is a boon to farmers.

Thank you.

STATEMENT OF HON. DON ERET, A NEBRASKA STATE SENATOR

For the record I am State Senator Don Eret representing the 32nd Legislative District. Senator Zorinsky, I thank you for bringing this Senate Agriculture Committee hearing to Nebraska to receive statements on the effect of the 1985 Farm Bill on the economy of our state. While the conservation measures of the bill are constructive I will direct my statement to those measures that directly affect the prices that producers receive. A reduction of posted cash prices result from the programmed reduction of loan rates and from this will result in a crippled cash flow that will affect nearly all aspects of our state's business environment as well as the public service agencies of our state government and its political subdivisions. Producers are in effect being called on to give away their farms to stay in the business farming.

The current farm bill emphasis is for U.S. Agriculture to underbid foreign competition thus forcing some nations to develop heavily subsidized compensation for their producers and other nations to increase production to meet payments on their foreign national debt. This results in a buildup of trade wars from which no nations benefit but from which the United States will probably sustain the greatest expense to its government because it subsidizes the farmers to produce and then subsidizes the export of commodities.

After the U.S. has effectively assisted other nations to become self-sufficient in agricultural production through technical and financial support it is a time to adopt a general plan of production control to regulate a commodity inventory suited to maintain an adequate domestic supply with a reserve that can supply export sales that can be supplied on the basis of delivering a quality grade commodity.

There will however never be a successful farm program policy ever enacted again by Congress in my estimation that will not require a large subsidy cost until the Senate and House Agriculture Committees seriously assume their oversight responsibility to correct the mismanaged administration of the Commodity Exchange Act. This Act is now the responsibility of the Commodity Futures Trading Commission (CFTC). The requirements of regulatory rule requested by President Franklin Roosevelt that were enacted by Congress in 1934-36 in order to prevent a continuation of the speculative debacle in the nation's security and commodity markets that brought the nation to its knees economically in the early 1930's are generally ignored on the commodity side. The Commodity Trading Act of 1936 was enacted as a measure to limit or abolish speculative short selling. Periodic reauthorizations of the CFTC by Congress under the sunset law since that commission's implementation under the CFTC Act of 1974 have ignored the complaints from producer organizations. However the cattle production sector has now also recognized the lack of beneficial purpose of having their commodity listed on a futures exchange and is demanding that cattle futures be de-listed. The solution to the nationally depressed agriculture economy lies in de-listing all producer marketed commodities from futures trading because the Commodity Exchange Act is not being properly enforced in regard to effective speculative position limits. Futures trading was legitimized by writing a law to regulate it, but if the law cannot be carried out then it should be repealed and the paper trading of all producer marketed commodities should be suspended to allow actual supply and demand to determine equitable cash commodity prices.

As an alternative to de-listing agricultural commodities, if the CFTC persists in not setting effective speculative position limits the Congress should enact a beneficial speculation rule stating that it shall be unlawful for any person directly or indirectly to acquire a speculative net short position with contracts sold at a price below 90 percent of the USDA parity price or to acquire a speculative net long position with contracts purchased at a price exceeding 110 percent of the USDA parity price for any United States producer marketed agricultural commodity traded in futures on any contract market. CFTC reauthorization bills are currently pending before both Houses of Congress so this would be an appropriate time to adopt the above corrective measure.

STATEMENT OF KENT GANSEBOM, PRESIDENT, NEBRASKA PORK PRODUCERS ASSOCIATION, INC.

The Nebraska Pork Producers Association would like to thank you and your staff for the assistance you gave us this past year. With your support we were able to get the "Pork Act" passed, and are now well on our way to achieving an enactment date of November 1. This legislation will give the pork industry the funds needed to promote pork as the delicious and nutritious product we in Nebraska know it is.

The number one concern on the minds of farmers at this time is the "tax law" changes that are pending. As pork producers many of the changes are positive for us. Limiting the ability of investors to use *farm losses* as a means of lowering non-farm income, allowing the use of *cash accounting* for real farmers, allowing *pre-production expenses* and not recognizing income on *restructured loans*, and all positive provisions for Nebraska farmers.

However, with the good comes the bad. The loss of *income averaging* is going to have a most detrimental affect on Nebraska agriculture. We feel the farmers of the U.S. are having to pay the price to provide additional tax breaks for other industries. The Senate version had provided for income averaging, with wide support from Senators as well as support from nearly every agricultural commodity organization. It is hard for us to understand how this provision was dropped out. If there is any way to get it reinstated, we would strongly support such a move. Another disappointment involved the depreciation period for *single purpose farm buildings* which was set at seven years much to the urging of the large chicken farming interests. Their provision will likely help the large investor much more than the small farmer. Elimination of *Capital Gains* is going to really hit the retiring farmer who wishes to sell enough of his assets to buy or build a house in town. The tax bite on him will be unbearable. In summing the "Tax Reform" up, we see several positive things, but also some provision that will hurt Nebraska farmers. We really doubt whether all of the revisions will decrease the taxes paid by Nebraska farmers.

Another issue that concerns pork producers in Nebraska and probably all farmers, is the export of farm commodities. We all know that we have an over production in almost every farm commodity raised in the United States. Our surplus is not going away, but continues to grow. The cost to the tax payer to maintain the surplus continues to grow. The need to do something is apparent to all. As pork producers, we do not support the idea of mandatory production controls. We feel that if we combine the ideas of the best people in agriculture and the support of the political powers in Washington, we as a nation surely can find a way to compete on the world market. If we are over priced or are offering an inferior product, such as too much foreign matter in our grains, then we better correct those problems. By putting the balance of trade on the positive side, with the sale of farm products to other countries, we not only help the farm economy but the balance sheet for the U.S. also.

There is no easy solution or magic "Farm Bill" that will solve all of agricultures problems. However, with continuous dialogue between farmers, farm commodity groups and our elected officials, a solution can surely be found.

On behalf of the Nebraska Pork Producers Association, I would again like to thank you and your people for the support and assistance you gave us this past year. If we can be of any help on any matter, feel free to give us a call.

JOINT STATEMENT OF MOLLIE ANDERSON, DIRECTOR, GREATER NEBRASKA JOB TRAINING PROGRAM, AND TOM JOHNSTON, EXECUTIVE DIRECTOR, NEBRASKA TECHNICAL COMMUNITY COLLEGE ASSOCIATION, ALSO GREATER NEBRASKA PRIVATE INDUSTRY COUNCIL

Senator Exon, Senator Zorinsky, and Members of the Subcommittee: Since the Great Depression, the federal government has accepted and maintained a commitment to help citizens who, through no fault of their own, find themselves in economic and social extremities from which they cannot recover alone. The current crisis in American agriculture has put that commitment to the test more than ever before.

While the federal government should do everything possible to keep agricultural producers on the land, realistically, in the near future, increasing numbers of farmers and ranchers will be forced to find other employment. Government, at all levels, has an obligation to support farmers, ranchers, and agri-business workers who have been forced to seek other livelihoods and life styles, as well as to assist those ag producers who can remain in business. Additional federal support is particularly vital to continue to assist both the individuals caught in the financial and psychological stress of the current agricultural crisis and the rural communities whose social and economic well-being are inextricably tied to the agricultural economy.

Unfortunately, there is a major difference between today's agricultural crisis and the Great Depression. Initially, many farmers and ranchers simply cannot understand or accept the fact that it may be impossible for them to continue in their chosen professions. Others have come to the realization of the inevitability of a career change, but lack the direction or confidence to begin exploring their options. At first, individuals often may be overcome by anger, guilt, or a sense of failure and worthlessness which is paralyzing, and inhibits constructive action.

Because of this range of responses, and program designed to help agricultural producers must first deal with the emotional needs of potential participants. Further help must be based on a comprehensive, long-range strategy involving federal, state, and local governments as well as public service and charitable organizations. However, the most comprehensive strategy will have little effect if it is not funded at levels that produce positive, long term results, not merely temporary, stopgap responses.

NEBRASKA'S STRATEGY: AGRICULTURE-IN-TRANSITION

In Nebraska, we have developed the "Agriculture-in-Transition" program to address both the immediate and long range needs of the program to address both the immediate and long range needs of the agricultural community. The "Agriculture-in-Transition" program is a cooperative effort administered by the Greater Nebraska Job Training Program using the services of the Nebraska Technical Community College system, the Federal Department of Labor, various state agencies, including the State Department of Agriculture and the Department of Economic Development, Chambers of Commerce, and other community oriented organizations. This program has been principally funded by a one million dollar discretionary grant from the U.S. Department of Labor under the provisions of the Job Training Partnership Act.

Ag-Action Centers: Some of the most visible components of the "Agriculture-in-Transition" program are the six "Ag-Action Centers" operated by the Technical Community College system. The Technical Community Colleges sites have been selected, instead of Social Service or Department of Labor offices or other higher education facilities, because they are better able to fulfill the goal of the program: to provide a familiar, nonthreatening setting to explore options and make decisions. The services of the Ag-Action Centers include financial evaluation, emotional counseling, assessment for alternative careers, and job training and referral.

Stage One: Evaluation of Options: The first goal of the Ag-Action Center is to provide participants with an opportunity to objectively evaluate their financial position in order to determine whether it would be prudent to continue in agriculture. Critical in this stage is the opportunity for an individual or family to carefully and personally explore options. No one attempts to make any decisions for the participants and in fact, many individuals at this point are unwilling to accept the possibility that they will have to leave agriculture production. The Ag-Action Centers can be crucial at this stage because they offer programs designed to make an operation more efficient and viable. Among those programs are:

(1) *Financial Evaluation Programs,* which: organize an operations financial history and identify past trends, define clearly the currernt financial position of the operation, develop a list of short-term financial and production options including alter-

native financing and debt restructuring, and identify agencies and resources which can assist in future plans.

(2) *Farm and Ranch Management Programs,* which: provide a three year sequence of record keeping management and analysis, develop ongoing computer-based enterprise analysis and year-end evaluations, and improve data-based management and decision-making skills.

(3) *Stress Management and Legal Counseling Programs,* which: help individuals identify and deal with potentially harmful levels of stress and anxiety, and provide information on legal issues such as bankruptcy and foreclosure.

In addition to the evaluation, management, and counseling services available through the Ag-Action Center, referrals to Job Service, Social Services, the Food Pantry and other appropriate community agencies are made.

Stage Two: Making the Transition: If an individual, after evaluating the available options, decides to leave production agriculture or agribusiness, and qualifies for JTPA assistance, a wide range of services become available. Those services can be divided into basic categories:

(1) *Assessment:* A General program which tests abilities, interests and physical tolerance. Administered through community colleges, it offers professional pre-screening for both employers and applicants for aptitude and appropriateness.

Supportive Services: Limited and strictly regulated under JTPA guidelines, this program can provide items such as tools, specialty clothing, and examination fees as well as transportation, child care, relocation, and limited medical assistance,

Job Search: A program designed to help agricultural workers find job opportunities and sharpen job hunting skills, and,

Counseling: Includes one-to-one counseling with farmers and ranchers to address both the emotional and financial aspects of their situations. Legal advice is available to explain rights and responsibilities.

(2) *Retraining, including: On-the-Job Training:* A progarm designed to provide the participant with an income while simultaneously training him to perform a new job. The OJT program pays 50% of the trainee's salary for a predetermined period of time. After a successful training period, the participant is able to leave the farm with a marketable skill and new self confidence.

Classroom Training: Resolves whatever educational needs a participant might have, including a G.E.D. The program can fund up to 100% of books, tuition, and fees for up to one year. The program is also capable of creating specialized training programs for new or expanding Nebraska businesses.

Work Experience: A Short-term, hands on training program usually with a public or nonprofit agency used to enhance classroom work. The experience helps make the transition to permanent work smoother.

Youth Programs: Rural Youth (16–21 years old) may qualify under low-income guidelines. The program provides the youth with work experience while also providing a supplement to the family income.

COMMUNITY SERVICE PROGRAMS

Community service programs are critical to the ultimate success of the "Agriculture-In-Transition" program. Program designers recognize that it is not enough to simply address the needs of the individuals who are suffering from the effects of a depressed farm economy. More often than not, the small, rural communities which have been agriculture-based for generations are unable to survive when the farmers, the main source of income, no longer buy goods. The result is the collapse of the community. To address the needs of the entire community the "Agriculture-In Transition" program is working on:

Home Based Small Business Development: A program designed to develop home-based businesses which produce goods and services for sale outside the immediate area; and, in Conjunction with the Department of Economic Development, *Entrepreneurial Training:* A program designed to help individuals assess their entrepreneurial skills and motivation, and assist individuals with a good chance of success, to start their own businesses.

As of July 1, 1986 more than 2,000 individuals have contacted the "Agriculture-In-Transition" program. Job training services have been provided to over 600 eligible individuals with a 95% satisfactory completion rate and an average wage at placement of $5.75 per hour. In addition, the Ag-Action Centers have provided financial evaluations and counseling to hundreds of individuals outside of JTPA funding. However, as positive as the statistics are, the effects of the programs such as "Agriculture-In-Transition" cannot always be measured in numbers. Frequently, success-failure ratios simply do not capture the full impact of the program. Attached to this testimony are the original, written comments of several participants. These letters show that the program extends beyond numbers into the realm of real lives.

To address the need of ag producers suffering financial stress, farm and ranch families, agribusiness workers who have been dislocated, and rural communities facing economic collapse, this Subcommittee asked to lend its support to the following measures:

(1) Approval of an Extension Service grant of $500,000 for continued funding of the "Agriculture-In-Transition" pilot program in Nebraska, and establishment of pilot programs in Iowa and Missouri, under Section 1440 of the Food Security Act of 1985.

(2) Consideration of additional appropriation for dislocated farmers under Title III of the Job Training Partnership Act.

(3) Development of a national focus and forum to promote rural revitalization, with a comprehensive strategy funded at a level to ensure far-reaching results.

Thank you for this opportunity to share our concerns for the future of rural America.

August 19, 1986.

Dear Senators Exon and Zorinsky: Our names are Terry and Dorothy Hansen formerly of Red Cloud, NE. My husband Terry is 28 and I am in my later 20's. My husband was born and raised on a farm near Red Cloud and comes from a three generation family farm background.

When our own farm was in deep financial trouble it was not an easy decision to make when we decided to give up farming. We had been farming in the Red Cloud area for nine years. We both held full-time jobs outside the farm as well as trying to keep the farm going. After we realized that we were supporting the farm and the farm was not supporting us, we felt it was time for a change. We have two children T.J. age 6 and Tyler age 3. Terry comes from a very close farm family environment, so when we started discussing leaving the farm it was received with less than mild enthusiasm.

We also knew if things with this Administrations policies towards farming and expanding markets were not going to take a big change, we would not be able to make a profit to survive.

In the winter of 1985 we sat down and after many hours of discussion and tears, we decided that we must move off the farm and start a new life. But with my husband's Associate Degree in Agricultural Business being so outdated, we knew it would be hard to find a decent job.

My mother, Rosemary Liesemeyer, called and told us about a program she had heard about on the morning farm report called "The Farmers in Transition Program." We contacted the program and met with the program advisor from our area, Don Gilliland from Southeast Community College in Beatrice, NE. We were told that we would qualify for the program.

Our choices seemed quite clear at the point. We decided to put the farm up for sale and move to Lincoln so Terry could attend school at Southeast Community College in the spring of 1986.

Terry has been in school for five months now and has carried A+ average. I myself have also picked up a few courses to make myself a more marketable product in the job market. I have found employment but my job alone does not meet our daily living expenses. We have had to apply for and receive aid from Social Services. This is the part that has been the hardest for us to accept. It is hard to go down there and say "yes I cannot feed my family." We also have had to get help for our children with Medicaid and also with daycare.

We live in a small basement apartment now and are still making adjustments in our lives as city people. It has not been easy, both financially and emotionally hoping that we have made the right decision. Terry still does not have a job but our hopes are high that he will be able to find a job when he is done with school.

Without the continuation of this program, he will not be able to finish his schooling to have the chance to make a new start. We feel that this program should be continued not just for us; we have made our choice; but for the others who are in a no win situation and need a way out. Retraining is the only option for us.

The only thing we would like to see changed is maybe a small income allowance established for the people enrolled in the program. My reason is, most of us have huge debts we are trying to pay off and the wives are usually unskilled workers who get menial jobs that do not pay much more than a minimum wage. Five hundred dollars a month does not go far after the rent and utilities are paid.

We do not want your handouts, just that we need a shoulder to lean on until our own personal farm crisis is over.

We have appreciated all your help in the past concerning Ag related issues and hope that you will continue to help the depressed farm economy in the future.

Respectfully,

MR. AND MRS. TERRY HANSEN,
Lincoln, NE.

AUGUST 22, 1986.

U.S. Senate
Ag subcommittee
Washington, DC 20510

TO CONCERNED: This letter is in regard to the fine program in which I've recently been a part of. I'm referring to the Greater Nebraska Job Training Program, out of North Platte, NE.

I became involved with the program earlier this year after filing bankruptcy due to our financial problems on our family farm. Since we lived in a farming community the jobs were scarce and low paying. With a family of five I needed help getting the training needed to find employment that would support us.

I got that help through the JTPA office, I received aid in enrollment, tuition, books, mileage, and relocating. Things that I could not have handled myself in my current situation. Thanks to Kathy Sanchez and Midge Hoffman, their office and this program, I'm going to be back on my feet in a new profession soon. I'm glad to see a program like this to help farmers like myself get a new start. I would like to see it continue because I know it will benefit others as well. I can't say enough about the program and people involved, but it's sure nice to know there are those who care and help available to us who need it.

Sincerely,

DOUG JANSY.

Box 43, HUNTLEY, NE, *August 19, 1986.*

Hon. EDWARD ZORINSKY
Hon. J. JAMES EXON
Members of Agriculture Subcommittee of U.S. Senate:

DEAR SEN. EXON AND ZORINSKY: I was forced off the farm in March after farming for 17 years. This was a very painful and discouraging time for me and my family. During this time, we were fortunate to become involved with the Farmer in Transistion Program. Our initial contact was with Rich Nelson and then with Julie Jensen of the Ag Action Center in Grand Island. They not only helped build up my confidence but came up with several job offers. My present job has been partially paid for by the program which allowed my employer to pay me wages during my training period.

We also have been involved in the stress programs set up by Julie, and these have been excellent.

I understand that more funds have been made available, but the program has not received any money yet. Please send these fund immediately. As there will be many Nebraska farmers who will need this program this year.

Thank you.

BRADLEY SKILES.

STATEMENT OF N. ROLLIE LAKE, PRESIDENT, COMMUNICATING FOR AGRICULTURE, INC.

CA'S CONTINUED SUPPORT FOR DEBT RESTRUCTURING

Background.—N. Rollie Lake is president of Communicating for Agriculture (CA), a famer, and for twenty years was senior vice president and director of the First National Bank of Fergus Falls, Minnesota in charge of agricultural credit. Prior to that he taught vocational agriculture in Fergus Falls, Minnesota.

CA is a nationwide, nonprofit organization. Its purpose is to serve rural America by helping rural youth and other rural citizens unite in efforts that will better the country. CA's special focus is helping beginning farmers, protecting and encouraging family ownership of farmland and ranchland, maintaining and improving rural education, reasonable health care cost for all, rural transportation needs, working to correct inequities in national and local tax laws, and encouraging soil and water stewardship.

CA is unique. It does not have State or regional associations, but surveys its members continually on important issues. This system provides the basis for CA's resolutions, which are then approved by its membership.

Finally, CA is nonpartisan. In an important sense, good agricultural policy like good foreign policy must be nonpartisan and CA's members hold that conviction very strongly. CA supports programs to better rural areas, an objective that surpasses narrower affiliations.

Overview.—CA's purpose here today is to present an overview of what is happening in rural America and suggest a positive approach to an existing problem.

CA has submitted other proposals to this committee on various topics. Today we are focusing on debt restructuring. The need for restructuring and the benefit from it.

Over the past two decades the late 1970's particularly, the Federal Government, lenders and borrowers all believed that to survive and provide sufficient food and fiber, family farmers and ranchers had to expand their acreage and production. All three worked together to accomplish increased acreage and production. So successful were we in doing so, we now have surpluses and depressed markets.

It took cooperation between the government, lenders and borrowers to accomplish our current dilemma and it will take the cooperation of these same three entities to solve today's crisis. For any one of the three to refuse to help solve today's problem is an injustice to the others.

We believe that the modified debt recovery program known also as H.R. 2064 sponsored by Representatives Penny, Weber, Daschle and Berdell; S. 719 sponsored by Senators Durenberger, Grassley and Andrews, enables all three entities to work together in solving today's problems. (See attached material).

Comparisons over time show that in 1982 the average farm was twice as large as in 1950, 439 acres now compared with 213 then. Not only is the modern farm larger, but it is very different:

Its output per acre is twice as great.

Its machinery is five times as costly.

Sixty percent more labor of its labor is hired.

It depends twice as heavily on manufactured inputs.

It depends more on nonfarm income.

Its assets are nearly four times greater, $451,000 compared with $95,000, and its equity is just over three times greater.

Its debt is greater, 21 percent of assets compared to nine percent in 1950, and 16 percent in 1980.

This is the profile of a business that requires both large capital investment and sophisticated management. Nearly four of ten acres produce for export, markets that are highly variable because of policies in Japan, the EEC, and other major importers, weather changes, decisions by competitors, and macroeconomic policies in the United States and worldwide. Fiscal and monetary policies, trade policies, and foreign exchange positions can change farm income as much or more than the traditional farm policies in some situations.

At the same time commodity markets have become less stable, family farmers and ranchers are less flexible. They are highly specialized, fully dependent on the national economy, and use large amounts of borrowed capital. Many are less able to withstand servere market swings than in the past.

As a result, the current farm financial problems take on special significance. Farmland prices peaked in 1981 after three decades of uninterrupted increases. By February 1986, farmland prices in the midwest were down 21-13 percent and 60-40 percent overall. Land values continued to drop through the midwest in 1984, 1985 and 1986 and will probably decline further in 1987.

Land values are now back to levels of the early 1970's. A number of farmers who purchased land or started farming in the mid-1970's now have debts that exceed the value of their assets.

Not all of the farmers who are in trouble today made bad decisions and attempted to expand too rapidly. The financial stress on the industry is so great that almost any problem can take an abnormal toll. The farmer with an unusual disease problem, a drought, a fire, or accident that required an incrsease in debt is suddenly in financial trouble. The cost of debt has become so high and the margin for error so small that only the well financed and the fortunate are free of financial concerns.

A comparison to our urban cousins is an appropriate way of understanding today's farmers' troubles. Example—if, 5 years ago, your house was valued at $150,000, the equity would be sufficient to support the loan. But, today, your house is only worth $75,000, so your loan exceeds the worth of your house, which gets you in trouble with the bank.

In April of 1985 USDA estimated that 143,000 family farms and ranches have debt-to-asset ratios greater than 70 percent. These farmers are almost certain to have serious cash shortfalls and long-term problems. This seven percent of all farms hold nearly 25 percent of the debt. These farms have serious cash flow problems, but may have a strong chance to recover with the right kind of assistance. They hold one-third of all debt.

Considering only farms with sales between $50,000 and $500,000, USDA estimated the financial condition in January 1985 as follows:

Number of farms	Debt/asset ratio (percent)	Share of debt (percent)	Comment
43,000	Over 100	9.3	Technically insolvent.
50,000	70–100	11.1	Extreme problems.
136,000	40–70	25.9	Serious problems.
450,000	Less than 40	17.9	No apparent problems.
679,000		64.2	

This is a profile of a farm sector with serious financial problems, but nevertheless one that cannot be insulated from changes in domestic and world markets. In FY 1983, the commodity credit corporation (CCC) spent nearly $19 billion in outlays on farm income and price support programs, not including the $9.4 billion worth of commodities paid under the payment-in-kind (PIK) program. While CA believes that farm programs are essential, but they must give top value for money spent.

Today, it is the commercial family farmers and ranchers that are the most troubled. They depend heavily on farming and the off-farm income of those smaller. They are, in many cases, highly efficient family farmers with an immense stake in local communities. They face the difficult choice of either increasing their investment or becoming a part-time operator.

This legislation is based on the most significant needs of family farmers—to help stabilize income for efficent operators and give them additional access to capital.

Thank you.

FARM DEBT RESTRUCTURING—CA MODIFIED DEBT RECOVERY PROGRAM—UPDATED AUGUST 1986

CA is proposing a farm-debt restructuring plan designed to build on present programs, and target farm borrowers who are in financial difficulty yet who can be helped with the right program. (See page 10, Example 3 for an illustration of CA Modified Debt Recovery Program.)

Today, many farmers find themselves in a financial bind. While about 30% of farmers have little or no debt and are doing well economically, there are between 30% and 40% of all farmers who have substantial debt and are in various stages of financial difficulty.

WHO ARE THESE FARMERS IN DIFFICULTY?

According to recently released figures, approximately two thirds of the nearly 215 billion dollars of farm debt nationally is held by borrowers slipping toward insolvency. In January, 1984, approximately 19 percent of the farmers nationally had debt to asset ratios of over 40 percent. Less than one year later, this figure increased to nearly 29 percent. The deterioration in the farm economy is shown in Table 1.

TABLE 1.—CHANGE IN FINANCIAL CONDITION OF U.S. FARMERS BY DEBT-TO-ASSET RATIO, JANUARY, 1984 TO DECEMBER, 1984

	Debt-to-asset ratio			
	0–10	11–40	41–70	Over 70
Operators (percent):				
January, 1984	58	24	11	8
December, 1984	41.1	30.2	16.6	12.1

Source: Federal Reserve Bulletin, January, 1984. Farm Journal Survey, December, 1984.

According to Professor Neal E. Harl of Iowa State University, in testimony presented at a hearing of the House Agricultural Subcommittee on Conservation, Credit and Rural Development on February 7, 1985, 28 percent of the total farmers in Iowa were sliding toward insolvency. Table 2 shows the financial condition of Iowa farmers as of January, 1984 comparing them to December, 1984 figures from the central region of the country.

TABLE 2.—CHANGE IN FINANCIAL CONDITION OF IOWA FARMERS BY DEBT-TO-ASSET RATIO, JANUARY, 1984 TO DECEMBER, 1984

	Debt-to-asset ratio			
	0–10	11–40	41–70	Over 70
Operators (percent):				
January, 1984	36	35	18	10
December, 1984	31.5	26	21.5	21

Source: Iowa Farm Finance Survey; Farm Journal Survey, December, 1984.

According to Professor Harl, "recent data indicate that a sharp movement has occurred to borrowers in the 41–70 percent category and to the over 70 percent group. Moreover, a significant number from 11–40 percent category have moved into the 41–70 percent group."

WHAT IS THE NATURE OF THE FARM DEBT?

Nationally, the total farm debt has increased dramatically. In 1971, total farm debt totalled around $54 billion; in 1976, around $91 Billion; and in 1984, total farm debt stands at $215 billion.

Farmers as a group have a much higher debt to income ratio now than in the past. In 1950, the overall debt-to-income ratio stood as less than 1; in 1960, it doubled to 2, changed to over 3 in the early 1970's, to 8 in 1980 and to 10 in 1984. Today the average farmer is trying to support $10 of debt for every $1 of income.

But even more important, the nature of the debt has changed dramatically. Debt today has a much shorter maturity.

Much of the debt is short term with interest rates tied to current loan rates. Even real estate debt is based on variable interest rates or is based on relatively short contract purchases. Maturities on a great deal of real estate debt has moved from 20–25 years in the 1960's and 1970's to 10–15 years or less today.

CAN FARMERS WITH HEAVY DEBT LOADS BE SAVED?

For a substantial segment of the 30% to 40% of farmers who have substantial debt and who are in various stages of financial difficulty, economic survival is a serious question. To help this group there must be a restructuring of farm debt. This group, mostly full-time family farmers, were caught with too much debt at the wrong time, debt that was manageable under the prevailing economic conditions when it was incurred but became a crushing burden when conditions changed.

In the group of farmers, there are many good farmers facing bankruptcy for lack of a way to make the transition from an economy of high inflation, raising land values and low interest rates to one of low inflation, sinking land values and high interest rates.

Many of the farmers in this group can be helped and saved with the right debt restructuring programs.

CA'S DEBT RESTRUCTURING PROPOSAL

In order for farm debtors to pay off debt obligations, a major restructuring of indebtedness will be necessary.

The number one feature of any debt restructuring program is to stretch out principal payments into a manageable debt repayment schedule. The second major feature must provide for a lower rate of interest, and third, for farm lending to continue, the risks must be shared.

The CA proposal utilizes existing FmHA programs and expertise of commercial lenders to accomplish this.

These are the Approved Lenders Program, Insured Operating Loan Program and Limited Resource Program. CA's Debt Restructuring Plan modifies slightly these existing FmHA programs to create a program of modified recovery debt credit.

The heart of the CA debt restructuring proposal is the utilization of FmHA's Approved Lender Program, with some minor modifications.

FmHA APPROVED LENDER PROGRAM

Under FmHA's Approved Lenders Program, a qualified commercial lender is approved in advance to process FmHA Guaranteed Loans. The approved lender makes the loan, services the loan and collects the loan, thereby reducing the paperwork and time required for FmHA approval of loan guarantees. The lender is responsible for seeing that proper and adequate security is obtained and maintained. FmHA makes the final decision on farmers' eligibility, use of funds, and credit worthiness.

WHO DOES THE APPROVED LENDERS PROGRAM HELP?

In today's farm economy, there are many farmers whose debt-to-assets ratio between 40% and 70% who are caught in a "credit availability gap." These farmers are not in serious enough financial difficulty for consideration by the lender of last resort, FmHA. Yet, they do not quite meet the credit standards of private commercial lenders.

This group is a relatively stronger class of farm borrowers than normal FmHA borrowers. The problem for this class of farm borrowers is that their cash flow is inadequate under current high interest rates and low commodity prices, though their basic personal net worth and equity remains relatively strong. The security behind the loan is strong enough to satisfy the bank lender, yet the loan is classified by bank regulators as a classified loan. For the bank, every classified loan reduces the amount of available assets against which credit can be made available, resulting in less credit being available to farm borrowers.

THE FmHA LOAN GUARANTEE PROGRAM

FmHA Loan Guarantees are designed to provide the credit necessary for family farmers to conduct successful operations. The loans are to be used for the purchase of farm machinery and equipment, basic livestock, annual operating expenses and refinancing for authorized operating loan purposes. Interest rates may be fixed or variable and cannot exceed the rate common in the area. The terms of the loan may be up to seven years on basic security. Quality loans may be guaranteed up to 90% while high risk loans may receive less than a 50% guarantee.

HOW WILL THE APPROVED LENDERS PROGRAM HELP?

Utilizing FmHA's Loan Guarantee Program, the commercial lender will have the additional security to make a bankable loan to farmers who find themselves in a "credit gap". The program is not a bailout for lenders. Unless the loan meets requirements, with a reasonable chance for success FmHA will not approve it.

The program will help, first, by making credit available. Second, the banker will use the banks own (pre-FmHA approved) loan forms familiar to both the borrower and the banker, reducing FmHA's paper-handling load. Third, credit will be available on a much quicker basis, assuring that available guarantee loan funds reach eligible farmers as quickly as possible. Fourth, the banker and borrower are familiar with each other, helping to insure that better loans will be made. Fifth, the borrower is most likely to stretch out the loan payback. A commercial lender will normally have a maximum of five years on the loan while under the FmHA Loan Guarantee Program, a maximum of seven years is possible. This extra two years can assist the farm borrower in achieving an attainable cash flow-payback program.

CA'S MODIFIED DEBT RECOVERY PROGRAM

CA proposes to utilize FmHA's Approved Lenders Program and Operating Loan Programs to achieve a significant plan for farm debt restructuring. To achieve this will require some modification of each of these programs.

MODIFICATIONS TO THE APPROVED LENDERS AND DIRECT LOAN PROGRAMS

A basic modification to the Approved Lenders Program is to place a *maximum rate to be charged on interest.* Under the Approved Lenders Program, interest rates may not exceed the prevailing interest rate in the areas in which the loan is made.

Under the modified Approved Lenders Program, a maximum interest rate would be set at 2½% above discount rate. This would yield an interest rate of 10% at December 31, 1984 rates.

Clearly, there is a need to lower interest rates in order to create a more achievable positive cash flow-debt repayment plan for many farm borrowers. In addition to the obvious advantage of lower interest rates, by lowering the maximum interest rate which a commercial lender may charge under the Approved Lenders Loan Program, the result will be to create opportunities for additional farm borrowers to take advantage of the Loan Guarantee Program. A lower maximum interest rate will encourage the lender to graduate the borrower to a regular commercial status.

The second basic change in the Approved Lenders Program would be to limit the Approved Lenders guarantee to a maximum of 50% whenever the direct lending authorities of the FmHA (Insured Loan Program and Limited Resource Program) are used by a lender to restructure a loan.

FmHA OPERATING LOAN PROGRAM

FmHA Operating Loans are made for both operating expenses and farm ownership. Ownership loans may carry an interest rate as low as 5½% and may be written up to 40 years. Operating loans may carry an interest rate as low as 7¼% and may be written up to 7 years. Under the Direct Loan Program, appraisals are done by the FmHA and security in the loan is named and itemized per lender.

MODIFICATIONS TO THE DIRECT LOAN PROGRAM

In order to restructure farm debt, lower interest rates and longer pay back terms will be required to attain a manageable, attainable cash flow for many farm borrowers.

The CA Modified Debt Recovery Program would incorporate into the Approved Lenders Program the use of FmHA Operating Loans in the same manner as the FmHA Guaranteed Loans. The Pre-FmHA approved commercial lender would process the paperwork for FmHA Operating Loans, using the commercial lender's forms. FmHA would still have the final say-so on the loan under a shortened turn around approval or denial. Appraisals would be done by the pre-FmHA approved commercial lender or qualified appraiser. The main change in the present FmHA Direct Operating Loan Program would be to share security on a pro-rated dollar value basis. This last change is important to create an environment where the financial risk is shared and one which will create far fewer complications than the present system of named security.

MODIFIED CREDIT ILLUSTRATION

Under the CA Modified Debt Recovery Program, there can be a significant debt restructuring which will assist present financially troubled borrowers who have a stronger asset base yet who can neither qualify for FmHA loans or regular commercial lender loans.

As an illustration: Farm Borrower with $100,000 of indebtedness—cash flow shows $21,000 available for debt retirement.

Example 1—Farm borrower with commercial lender:

	Loan Term (5 yr) [1]
Cash required for:	
Principal reduction	$20,000
Interest payment	13,500
Total	33,500
Payment deficit	12,500

[1] Loan interest rate, 13½ percent.

Example 2—Farm Borrower under Approved Lenders Program (no modifications):

	Loan term [1]	
	7 yr	15 yr
Cash required for:		
Principal reduction	$14,285	$6,666
Interest payment	13,500	13,500
Total	27 785	20,166
Payment deficit	6,785	0

[1] Loan interest rate, 13½ percent

[2] Only available for self-perpetuating assets (dairy herd, etc.), up to 15-yr amortization with 7th year balloon

Example 3—Farm Borrower under CA Modified Debt Recovery Program Debt is divided between the Approved Lender Loan and either the Insured Loan (3A) or the Limited Resource Loan Programs (3B)

The 1985 Farm Bill provides another FmHA program, the Interest Rate Buy-Down (IRBD). Column (3C) is indicative of the financial situation of a borrower using the IRBD if the maximum of 2% is being deducted by FmHA, maximum of 2% by the lender and an additional 2% due to a state buy down program.

	Approved lender loan—			
			With 2+2+2 [1]	
	(3A)	(3B)	(3C)	(3C)
FmHA guarantee loan	$50,000	$60,000	$50,000	$60,000
Loan term (years)	7	7	7	7
Loan interest rate (percent)	8.5	8.5	7.5	7.5
Repayment required for:				
Principal reduction	$7,143	$8,571	$7,143	$8,571
Interest payment	4,250	5,100	3,750	4,500
Total	11,393	13,671	10,893	13,071

	Plus insured loan	Plus limited resource	Plus insured plan	Plus insured plan
FmHA operating loans	$50,000	$40,000	$50,000	$40,000
Loan term (years)	15	15	15	15
Loan interest rate (percent)	10¼	7¼	10¼	7¼
Payment required for:				
Principal reduction	$3,333	$2,666	$3,333	$2,666
Interest payment	5,125	2,900	5,125	2,900
Total	8,458	5,566	8,458	5,566
Total payment required for:				
Principal reduction	10,476	11,237	10,476	11,237
Interest payment	9,375	8,000	8,875	7,400
Total	19,851	19,237	19,351	18,637
Cash flow balance	1,145	1,763	1,649	2,363

[1] With 2+2+2 interest buy down, assuming a 13½ percent interest rate.

From the examples, the Modified Debt Recovery Program has accomplished a significant reduction in interest rates and has extended payments over a longer period of time to achieve a reasonable and achievable cash flow.

The Modified Debt Recovery Program covers the three areas of need: restructuring of debt, adjustment of interest and sharing of risk. The Modified Debt Recovery Program shares the risk by bringing the Government in on a maximum of 50% guarantee of the Approved Lender Program. Debt is restructured by adding the direct lending programs and interest is lowered through the direct lending programs to a minimum of 7¼% and a maximum of 2½% plus Discount Rate on the Approved Lender portion. The Modified Debt Recovery Program utilizes the assets of the FmHA and adds the expertise of Commercial Lenders.

CA MODIFIED DEBT RECOVERY PROGRAM

CREDIT DISK # 32

FARM REAL ESTATE DEBT (January '84) Shared by Lender:

	1980	1981	1982	1983	1984	1980	1984
	--------Bil Dollars	----------	----------	----------	----------	----(Pct)	----
FL Banks	29.89	36.29	43.26	47.09	48.12	35.00	43.00
FmHA	6.83	7.64	8.44	8.76	10.07	8.00	9.00
Life Ins	11.96	13.27	12.66	13.14	12.31	14.00	11.00
Comm'l	8.54	8.6	8.44	8.76	8.95	10.00	8.00
Ind & Oth	28.18	30.56	31.65	31.76	32.45	33.00	29.00
Total	85.4	96.36	104.45	109.51	111.9	100.00	100.00

FARM NON-REAL ESTATE DEBT (January '84)

	1980	1981	1982	1983	1984	1980	1984
PCA	17.69	19.87	21.14	20.27	18.58	22.01	18.22
FmHA	8.84	12.1	14.42	14.94	15.48	11.00	15.18
F I C B	.8	.86	.96	.85	.82	1.00	0.80
Comm'l	31.36	31.97	32.67	36.28	38.18	39.01	37.45
Ind & Oth	16.88	18.14	19.22	19.21	18.58	21.00	18.22
CCC	4.82	5.18	7.69	14.94	10.32	6.00	10.12
Total	80.39	88.12	96.1	106.96	101.96	100.00	100.00
TOTAL	165.79	184.48	200.55	216	213.86		

Average D/A ratio, by sales Class:
(Jan 1, 1984)

10-20	15.7
20-40	15.9
40-100	19.4
100-200	21.5
200-500	27
>500	36.6

ANALYSIS:

NON-RE TOTAL	101.96
FmHA	15.48
CCC	10.32
Non-Com'l	18.58
Bal	57.58
Excl high risk	21.03
Excl part time	5.00
Bal Full time	29.548

Est full time, in
trouble with
40-70 pct d/a ratio
2.9548 bil dlrs

CA Program
Restructure $2,954 billion in current debt

Two Programs:	A	B	Total	
Amount:	-----million dollars	-------	-------	
Guarantee Approved Lender	590.96	739.70	1329.66	Much of the credit would be available government subsidized interest.
Interest Subsidy	0	0	0	
Administrative cost	41.3672	51.709	93.0762	
Total	41.3672	51.709	93.0762	
FmHA CL				
Limited Resource	0	738.70	738.70	Subsidies would be required for 55 percent of the credit under plan.
Insured	886.44	0	886.44	
Subsidy, CCC at 10,5	16.62	180.06	196.68	
Administrative cost	132.97	110.81	243.77	
Total	149.59	290.86	440.45	
Total Credit	1477.40	1477.40	2954.80	
Total Govt Cost	190.95	342.57	533.53	
Annual Govt Cost	15.88	26.78	42.66	

February 12, 1985

CRAIG, NE, *August 26, 1986.*

Senator EDWARD ZORINSKY,
United States Senate

DEAR SIR: When I received notice that I was to testify before this Committee, I was asked for ten copies of what I was going to say. That is one fault of this program, too much paper work.

The first program I participated in was in 1936. It was a good program that did what it was supposed to do because agriculture was not as complicated as it is today.

I participated in most of the panaceas for agriculture that came along. I joined the N.F.O., went to their meetings and listened to all their presentations. We tried holding actions and they failed because whenever they raised the price, the neighbor down the road made a special effort to get his products to market to nullify what N.F.O. members were doing.

Thirty years ago, I called a meeting in Lincoln at the Pershing Auditorium. Mainly we had two groups there. A lot of N.F.O. members and about the same percentage from the Ag. Department in Washington. I presented a compulsory farm program that called for each farmer to take out of production whatever percentage required to adjust production to disappearance so we could achieve a fair and equitable price at the market place. I won't bore you with any more details. At the end of the meeting, we asked how many there would be in favor of such a program. Over 90% were agreeable to it.

Since then, I've seen programs come and go. Each one gets more foolish and absurd. This latest program takes the prize for a bungled up mess.

If it wasn't written with the intent for it to fail, then it was administered with that intent in mind. Anytime you sell any product for less than the cost of production, you are fighting a loosing battle.

I don't have to point out the faults of this program, except for one major point. If we furnish our competitors with the money, the machinery and the know how to produce, the only way we can sell cheaper than they can is if we lower our standard of living to the same plane as theirs.

The only answer is a compulsory program where we produce what we can sell at a fair and equitable price.

Yours very truly,

MORRIS SWEDBERG.

STATEMENT OF SID CLAUSSEN, NEBRASKA ALFALFA DEHYDRATORS

According to USDA, during the year 1983-84 (May 1-April 30), 149 alfalfa plants in the United States processed 1,194,400 tons of alfalfa pellets. In 1985-86, 119 U.S. plants produced 855,500 tons of alfalfa pellets. At the present time (1986-87), there are 101 plants in the U.S. processing alfalfa pellets, and the total production for the year will be down considerably from previous years. This attrition has been due to adverse conditions in the market place. Rather than continuing to operate unprofitable plants, management closed plants.

A majority of the U.S. alfalfa processors are considered small businessmen, and own one or two alfalfa plants. Several of the processors also cube, bale, chop and grind alfalfa, feed cattle, operate small feed manufacturing facilities, or are otherwise engaged in some other facets of agriculture or agribusiness.

One of the biggest obstacles for U.S. alfalfa processors is trying to complete with subsidized U.S. agriculture commodities, and subsidized foreign alfalfa and other grain products.

(SUGGESTED LETTER)

Alfalfa processors in the United States can no longer compete with government and foreign subsidies of agricultural products. Many producers have already been forced out of business mainly by the PL480 Flour Program, which floods competing markets with wheat middlings.

Others programs that have helped destroy the alfalfa pellet business are:

Ethanol—Gasohol subsidies—Free corn—(Corn Gluten Feed).

1985 Food Security Act—Lowered competing grain prices.

Dairy Herd Buyout.

Low Interest loans—up front payments—and, etc.

Dehydrated alfalfa producers generally lease land (5-7 years) to grow alfalfa. Therefore, this is land not included in the Farm Program that has probably lost all or part of its base. (Alfalfa is an excellent soil conservation crop). These leases were acquired during high land and grain prices which contribute to high costs of production.

Alfalfa pellet processors have been forced to sell their product well under cost primarily due to PL480. Other government programs have made certain there are no profitable markets for alfalfa products.

These alfalfa producers have large debts due to production costs, inventories and maintaining plant facilities. There are fewer producers each year due to bankruptcies and/or not being able to acquire operating capital.

Our government tells us that huge stocks of agricultural commodities will drag down prices for many more months . . . feed grains, wheat, soybeans and most other crops. Also, any improvement in export business will be slight.

U.S. Alfalfa processors mainly compete against Canada for any export business. As you know this is most difficult due to their 72¢ on the dollar, plus heavy subsidies on freight and production costs.

Pelleted dehydrated alfalfa is a commodity . . . a non-subsidized one at that.

We need immediate help to continue operations which provide jobs in local communities, cash payments to farmers and land owners plus some export business.

SOLUTIONS

Direct subsidy based on past production.

PL480—All sales are wheat and no flour. Would increase demand for grains and alfalfa—increase jobs.

Eliminate subsidy on ethanol—Save tax dollars.

Cancel Farm Bill.

Direct subsidy from USDA to develop new export markets for alfalfa pellets.

JAPANESE DEMAND FOR HAY AND ROUGHAGE INCREASES

Japanese demand for greater imports of hay and roughage has been created by an increase in livestock numbers. Hay "cubes" are expected to increase from 400,000 tons a year to 500,000 tons within a few years. The greater demand is also coming from farmers who believe that the "cubes" contain higher nutritional levels and fibre than the more traditional beet pulp and rice straw which primarily contain fibre. (July 1986 Feed International Magazine)

U.S. AND COMMON MARKET AGREE TO SIX MONTH TRUCE

The U.S. and Common Market have agreed to a six-month truce to avert a trade war over farm products. The truce is aimed at working out a dispute over increased Spanish and Portuguese tariffs on certain agricultural products from the U.S.

NEW SODBUSTER RULES ANNOUNCED

New rules denying federal crop subsidies and other benefits to farmers who ignore conservation goals by raising crops on highly erodible land were announced Wednesday by the Agriculture Department.

The interim rules cover so-called sodbuster provisions of the Food Security Act of 1985, which also sets up a program to protect wetlands. The temporary rules are effective immediately but will be open to public comment for 60 days before permanent regulations are adopted.

Farmers who apply for USDA farm programs must certify that they have not cultivated highly erodible land for production of agricultural commodities since December 23, 1985, the date the new farm law was enacted.

Those who have recetnly cultivated such land must certify that they are producing the crop under a formal conservation plan approved by the local soil and water conservation district. A similar certification will be required for wetlands.

"Farmers who plant agricultural commodities on highly erodible lands or wetlands without meeting these conditions are ineligible for the covered program for any crop they produce on the land they own or operate, the department said in a background report.

"Agricultural commodities are those that are seeded annually, including sugarcane. Under this definition, crops such as alfalfa that do not require annual seeding are not considered agricultural commodities," the report said.

"Thus, land that has been in alfalfa since 1981 must be under an approved conservation plan if the producer wants to plant an agricultural commodity and retain eligibility for USDA farm program."

Programs covered by the regulations include USDA price supports and income supports, disaster payments, crop insurance, Farmers Home Administration loans, Commodity Credit Corp. storage payments and farm storage facility loans.

[American Alfalfa Processors Association Weekly Bulletin 86-26, July 3, 1986]

WEATHER AND CROPS

Newhall Land & Farming—southeastern COLORADO—Ample irrigation water . . . good hot growing weather. On first cutting . . . some people will start second next week. First cutting has not been very whoopee. Second looks good.

Cross Alfalfa Products—south central KANSAS—.40" of rain on alfalfa this week . . . sunshine today. In second cutting . . . quality good . . . slow putting up alfalfa due to high humidity. Ample moisture at the present time.

R-W Milling Company—north central KANSAS—Had a lot of rain over weekend . . . 2-6". Wednesday first day that have run this week. On third and quality is holding . . . tonnage average to this point. First part of third will be short then as get into cutting will be heavier.

Lexington Alfalfa Dehy, Inc.—south central NEBRASKA—Had light rain Wednesday morning. Finished new seedings and quality has been pretty good. Ready to go on second and it should be better . . . little behind on hay.

Iowa Valley Milling Company—eastern IOWA—5" of rain Sunday night. Back in the fiields again Wednesday. Plugging away . . . still on first cutting . . . will be until after July 4th. Getting some pellets on hand.

Verhoff Alfalfa Mills, Inc.—northwestern OHIO—This has been an up and down season . . . never really got to rolling. Lot of areas had 9" of rain last month . . . It is fair time so always expect rain. Probably won't be back in the fields for another couple of days . . . about two weeks behind. Tonnage nothing fantastic, but good—quality dropping.

Langston Enterprises, Inc.—northeastern ARKANSAS—Dry . . . need rain in the worst way. Most of beans up—but need mositure. Cotton holding its own. Alfalfa will be short from now on—caught up—have been shut down all week and will be part of next week.

THE MARKET

According to the July 2, 1986, issue of "Grain & Grain Market News", published by USDA's Agricultural Service, "Dull trade forced most alfalfa markets lower as production expanded rapidly. Alfalfa Center Nebraska dehydrated alfalfa pellets went down $2.00-4.00 to $68.00-72.00 per ton. Toledo dehdyrated alfalfa pellets were steady to $2.00 lower at $95.00-98.00 per ton. Reground alfalfa meal markets were steady to $4.00 per ton lower. Los Angles suncured alfalfa meal held steady at $110-114 per ton."

STATEMENT OF CARL SCHOENROCK, FAIRBURY, NEBRASKA

I am Carl Schoenrock, a family farmer from Jefferson County Nebraska. I am concerned with the ever increasing carry-over stocks of grain and the affects of the mandatory soil conservation aspects of the 1985 Farm Bill.

First I want to speak about the optional cash land diversion program. My proposal for reducing excessive grain carry-over stocks says:

We believe that producers should have the option of enrolling an additional 10 to 20 percent of their 1987 crop base in a cash land diversion program.

The payment rate per acre should not be less than 50% of the established (target) price times the farm established yield.

I. ADVANTAGES FOR PRODUCERS

A. More flexibility for producers. Perhaps one half of producers would use this option while the other half would prefer to plant their maximum permitted acreage.

B. Reduce or eliminate these input costs: (1) Chemicals, (2) Fertilizers, (3) Seed, (4) Harvesting 7 drying, (5) Storage, (6) Interest.

C. Reduction of carry-over stocks could mean better prices in future years.

D. Alleviate storage problems if not enough storage space is available.

II. ADVANTAGES FOR GOVERNMENT

A. Would eliminate deficiency payments which could be as high as $2.08 per bushel for wheat ($4.38 target minus $2.30 lean after Gramm-Rudd adjustment) or $1.19 for corn ($3.03—$1.84), if producers chose this option. These are 1986 figures the 1987 figures would be slightly higher.

B. Carryover Stocks would be reduced which would save an estimated 30¢ per bushel storage payments.

THE AFFECTS AND COSTS OF THE MANDATED CONSERVATION COMPLIANCE SECTION OF THE 1985 FARM BILL

The next item I want to talk about is the mandatory soil conservation section in the 1985 farm bill. The original sod-buster language stated that only producers who broke out native grassland that would become highly erodible cropland would lose farm program benefits for the crop grown on this land. I fully supported this version of sod-busters legislation and still do. It was replaced by tough conservation compliance rules (sections 1211 and 1212 of 1985 farm bill) which states that any person who in any crop year produces an agricultural commodity on a field on which highly erodible land is predominate shall be ineligible for farm program benefits unless he has developed and started work on a conservation plan by January 1, 1990 and will have all required conservation measures completed by January 1, 1995. Conservation compliance rules, for instance, may affect land that has been farmed under farm programs for generations.

Who Will It Affect?

It will have little if any affect on the large irrigated farms of California, Arizona, and other western states; nor the farms of Central Illinois and Indiana, South Central Minnesota, and North Central Iowa. The producers most affected would be small family farms of Southern and Western Iowa; Eastern Nebraska; and Northeast Kansas; and most of Missouri.

Who Will Pay the Bill?

No provisions are made in the bill either to fund or to cost-share the required conservation measures.

What do we say to a farmer who might be faced with an expenditure of $50 to $400 per acre to apply the required conservation measures on land that is worth only $200 to $300 per acre. If he doesn't comply, he will be denied all farm program benefits (such as commodity loans; deficiency, diversion and storage payments; farm storage facility loans; crop insurance; disaster payments; Farmers Home Administration loans; and cost sharing funds). It will apply not only to the crop production from the highly erodible land but to the entire production from all the land owned or farmed by the producer.

It certainly would be unfair and unfortunate for owners and operators of the least productive crop lands to have either the choice of losing all farm program benefits or to pay most of the extremely highly cost of applying the required conservation practices. It is those producers who can least afford these costs because of cash flow difficulties because of low commodity prices (about 30% parity). Farm program benefits should be targeted to these family farms and not be withheld.

What Should Be Done?

The current language of Sub-title B of Title XII Conservation should be deleted and the original soil-buster language should be inserted which would deny farm program benefits to those producers who broke out native grasslands on highly erodible land after December 23, 1985.

The Agricultural Conservation and Great Plains programs should be fully funded so that the producer who wants to do conservation work would be eligible to receive up to $5,000.00 in cost-sharing funds annually.

These programs are now being funded by the same dollar amounts that they were fifty years ago. The gross national product has increased forty to fifty times since then.

Some say the cost would be prohibitive but I ask you how about the farmers who own or farm the least productive crop land. Can they afford the extremely high cost of applying the required conservation measures or lose their farm program benefits if they don't?

We believe that producers should have the option of enrolling an additional 10 to 20 percent of their 1987 crop base in a cash land diversion program.

The payment rate per acre should not be less than 50% of the established (target) price times the farm established yield.

I. ADVANTAGES FOR PRODUCERS

A. More flexibility for producers. Perhaps one half of producers would use this option while the other half would prefer to plant their maximum permitted acreage.

B. Reduce or eliminate these input costs: (1) Chemicals, (2) Fertilizers, (3) Seed, (4) Harvesting & drying, (5) Storage, (6) Interest.

C. Reduction of carry-over stocks could mean better prices in future years.

D. Alleviate storage problems if not enough space is available.

II. ADVANTAGES FOR GOVERNMENT

A. Would eliminate deficiency payments which could be as high as $2.08 per bushel for wheat ($4.38 target minus $2.30 loan after Gramm Rudman adjustment) or $1.19 for corn ($3.03—$1.84), if producers chose this option.

B. Carryover Stocks would be reduced which would save an estimated 30¢ per bushel storage payments.

Statement of Roger Reininger, Leigh, NE

Good day, Thank you for letting me address, this Committee Hearing. My name is Roger Reininger, from Leigh, Ne. Colfax County I have a farm property insurance agency and am a farm real estate broker. I live and work with my brother on our family farm which has been in our family for over 100 years. I have several hundred farm insurance accounts, so I am out every day, working with farmers in a 4 county area. Senators, I would say about 80% of the farmers, I work with, are having severe financial problems. We have heard in the past years, where it was the poor managers that were having financial problems, but we can't all be poor managers, can we? If poor management, means working from sun-up until late at night, then we are guilty of poor management.

A major aspect of the farm crisis is the steep decline in farm land values. The USDA estimates that nationwide, agricultural land values have fallen by more than 30% in 1986. Land values in 10 midwestern states fell between 40%-50%.

The results are even more sobering when viewed in constant dollars. Nationwide, between 1982 and 1985, farm land values fell by $146 billion. As a farm real estate broker, I'm seeing that we are selling out the young farmers, 25-35 years old. That our real farm crisis might be 20 years from now, when there won't be anyone left to farm our American land, otherwise our farmers, in the next generation might be like the proud American Indian, living on a little government (piece meal) to keep them under control. You say that can't be so? The American Indian believed the promises of our government, just like the farmer is doing today, such as:

1. Grow crops from fence post to fence post.
2. Never a surplus of grain (con't population growth).
3. Shortage of farm land.

The loss of farms continues at the alarming rate of over 2,000 per week, according to the U.S. Dept. of Ag. (U.S.D.A.). So profound is the farm crisis that two U.S.D.A. economists project that by the year 2000, the largest 1% of farms could account for about half of United States food production. We have an administration, that is staunchly anti-communist (which is good) but in the next generation we will have a communist system of farming, (collective farm's). We will not call them that, probably corporate farms, but it will have the same end result.

Many of the ancestors of today's farmers, poor and starving Europeans, left their misery of landless serfdom and came to the new land in search of land and precious freedom. It is an extreme irony that today's farmers, descendents of those huddled masses, yearning to breathe free, must now huddle together in food stamp lines and bankruptcy courts. We must be careful that we don't end up like the Central American Countries, where 3%-4% of the people own 80% of the land, a condition of powerless and hunger similar to what our ancestors came to this country to avoid. Today's federal farm policies, designed to ensure cheap raw materials here and abroad, are destroying the family farm system of agriculture. Consequently, never before. not even during the Great Depression, have we experienced such destruction of the social and economic structure of rural America. The farm crisis is having a devastating effect on our whole economy, making it an issue of enormous importance to all people in the United States.

Senators, we have an administration that cares more about the Battleship Iowa than they do about the farm states of Iowa and Nebraska. Farmers are hard working proud people. People that send their son's and daughter's to die for this Great Nation. Now it is time for this Great Nation, to do something for our son's and daughter's. So we can continue to have the family farm way of life.

Bankrupt farmers, failing rural business and unemployed workers that can't pay taxes, in 1982 alone, lost tax revenues resulting from below-parity farm prices totalled an estimated $144 billion. Farmers in many states are unable to pay property taxes, which further threatens state and local governments abilities to pay for education, roads and other essential services.

The potential impact of losing half of our farmers in the next few years should concern all Americans. U.S. farmers currently control about $1 trillion worth of land, machinery and livestock equal to value of all U.S. manufacturing industries. Unless current trends are reversed, almost $500 billion, will pass out of the hands of working farmers and into the hands of banks, insurance companies, large corporations and the government.

CAN ANYTHING BE DONE? OUR 1985 FARM PROGRAM WAS A $30 BILLION JOKE

1. We need a farm program that takes a certain percentage of all farmable land out of production, not a percentage of past corn base. This 1985 program helped the farmer who-cash corned his farm to death, and penalized the farmer that had a program of crop rotation.
2. We need help with foreign governments that subsidize their farmers.
3. We need to guarantee the condition of our grain sales, so that the large grain exporters, can't prostitute our grain in transportation.
4. We need again a commitment between farmers, bankers and government where we can work as partners, not adversaries.
5. Most of all we need to guarantee that the family farm we are saving, will be worth saving, so that our next generation, has the same quality of environment that we received. We need to protect our underground water and our land, so we don't allow the poisoning of our future generations. Thank you.

STATEMENT OF PHILLYS PERSON LYONS, MCCOOK, NE

Senator Zorinsky, thank you for making it possible to give testimony in Nebraska. You are to be commended on your interest, knowledge of, and growing understanding of the problems faced not only by Nebraska farmers but also the nation's farmers.

It is clearly evident that Senator Harkin and you were backing a bill last year which would have been much better legislation for the American farmer if it had been passed by Congress rather than the 1985 Food Security Act.

Security, indeed! Security for whom?

The emphasis on overseas sales in this "Farm Bill" predetermined lower prices for commodities at the marketplace (and lower returns to the producer farmer/rancher), lower prices for the exporters (Cargill, Bunge, and other large international grain exporters), and uncontrolled production which threatens to flood the international markets.

Australia is up in arms with indignation because of the subsidized sales of U.S. grain to Russia. The exporters are being paid subsidies by the U.S. Government and they are publicly insisting upon additional subsidies!

The irony of subsidizing the exporter is that the producer receives no extra dollar returns. He sold his commodity to a U.S. market at a depressed price—and today's market prices are below the cost of production—word s out that farmer's MUST learn to produce corn for $2! The producer looses money and, also, contributes to taxes which pay the exporter's subsidy payments on the commodity which they produced.

There is talk of more loans to farmers. Where are our economists? You cannot borrow yourself into prosperity!

When people ask me to explain the present day farm programs, I reply, "The programs are NOT written by farmers. They are written by USDA bureaucrats and even the county ASCS office is hard pressed to explain a program which often is changed during the period of its existence!"

We need well planned timely programs which are consistently administered.

Let's look at the problems faced by Nebraska farmers following the passage of the 1985 Food Security Act.

Despite a several states wide drought in the southeastern United States, overproduction of commodities has storage facilities bulging and even on the ground storage with a 5¢ extra payment being offered. WHO is going to buy weathered, damaged grain?

River barge storage is being planned. Nebraska WIFE (Women Involved in Farm Economics) members were told at the 1985 State Convention that barges are seldom if ever cleaned. How can good grain quality be maintained in such storage? Look at the amount of the storage payment being considered for these questionable facilities.

The costs of the present day farm programs are escalating beyond all USDA projections. Three times the USDA has asked Congress to provide more funds because the payments increase and increase and increase. How on earth could the accountants, economists, and the program writers have "projected" so inaccurately! They should have anticipated that changing the loan figures would increase the amounts of the deficiency payments which would serve to increase the costs of the programs.

Then add to the increasing payments for the commodity programs, the huge subsidies the U.S. Government pays to the exporters of commodities and you find the reasons behind the editorial page of the USA TODAY for August 6 or 7 which presented the PROs and CONs of farm subsidies. It is a financial demand on the U.S. taxpayers.

However, the U.S. farmer is not asking for this kind of program. The U.S. farmer wants a better price at the market place for all commodities and that better price is a parity price.

I would like to tell you about some problems which affected our farm operation as landlords with two fine tenants:

1. This Spring we went to the ASCS Office on a Monday morning after receiving a card the previous week naming that day to appear. We were told that new regulations had been announced on Friday (actually they were leaked to the media on Thursday) and the Hayes County ASCS could take no action until they had studied the new rules which came in that morning's mail!

2. The 1986 Conr Program was not announced until late—very close to planting time. Our ground had been treated with atrazine in August 1985. We were locked into corn as the only seed which would germinate in this particular field. No feed grain seed would germinate on ACR (set-aside) acres.

3. The 1986 PIK certificates should have been pre-written for a release nationwide on the same day. What was fair about release to Texas, Oklahoma, and Kansas where 112% bids were offered only to have bids fall to 105% and 104% when Nebraska certificates were made available? Hayes County PIK certificates (where we received ours) were available after the eastern part of the state but before Hitchcock County PIK certificates. And friends in Red Willow County had not received theirs two weeks after we had received ours. Bids had dropped to 103% by then.

4. Have you tried to sell grain lately? During a telephone conversation with a cousin who farms near Edina, Missouri, I was told, "We delivered a load of grain to the elevator and when we brought the second truckload they refused to take it. No room." We hope that this does not happen to us.

Now let's take a look at some widespread effects brought about by the distressed farm economy:

1. Increasing numbers of farm bankruptcies.
2. Bank failures.
3. Decreasing amounts of tax funds at the various government entities.
4. Disappearance of many businesses from communities of all sizes.
5. Closing of many manufacturing companies from little Lexington, NE, to the big city iron and steel producers.
6. Deere Company third quarter loss of $75,000,000 is not an isolated problem. Other large businesses are feeling the crunch from the lower purchasing power of their rural consumers.

What changes would be made in the 1985 Food Security Act?

Let's make a **FARM BILL** of it!

PARITY PRICES AT THE MARKET PLACE FOR ALL FARM COMMODITIES.

Mandatory production controls based on production units.

Marketing Cards for U.S. producers only to sell in U.S. markets.

Close all loopholes. No more "American Beef" grown on land in Brazil owned by an American Company. No more Mexican grown vegetables and fruits packed into boxes labelled "Grown in McAllen, TX". Label foods with the country of origin.

Label kangaroo meat correctly. Ban foreign foods which are substandard by U.S. standards. Let's make certain that food is fit for human consumption.

Let's make certain that U.S. grain standards are high for our foreign purchasers. They deserve to receive the quality which they purchased.

Senator Zorinsky, you and I have conferred about farm problems in your office in Washington, D.C., I have written letters, I have talked to your ag advisors, and I have given testimony last year in Ogallala. Other of your constituents have done these same things. We are all most eager to help you help us. We are the largest industry in the U.S. and we are basic to the annual production of new wealth in our economy.

Let's get agriculture on a paying basis with parity prices at the market place and contribute that all important seven times turnover of every farm dollar into the nation's economy.

Thank you for your time and interest.

PALISADE, NE, *August 26, 1986.*

Senator EDWARD ZORINSKY,
Ranking Minority Leader, Senate Agriculture Committee.

DEAR SIR: The 1985 Farm Program has been a disaster for us and the whole farm economy. Our grain prices and acreage were reduced about one third. This has made less farm income thus causing more financial hardships.

The PIK certificates were issued to help make up for the loss of farm income and failed to do so. They were issued on different dates from county to county. The farmers receiving the early issued certificates averaged 112%. Our certificates in Hitchcock were issued at a later date and we had to do a lot of hunting for 103%. This was very unfair to the farmers receiving the late issues. We received our second certificates on Friday and the Monday morning market report listed them 2 cents less than Friday's market. This makes for a marketeers' paradise! These certificates can be sold several times before reaching the U.S. Treasury. Why not issue checks and cut out the racketeers?

We have a 2,000 acre farm, raising beef and grain. We planted oats on the reserved acres. This was the first time in 40 years of farming that we planted oats. They turned out good and we cannot sell them as there is no market for oats!

Our farm economy is such that one crop failure is a disaster. There is no way for us to recuperate. The only thing that is going to help is a fair price at the market place and we believe that can be accomplished in Washington, DC.

Respectfully yours,

HAROLD E. BAKER.
MARGARET L. BAKER.

R. L. KALIFF RANCH CO.,
York, NE, August 10, 1986.

The Honorable RICHARD LYNG,
Secretary of Agriculture, Washington, DC.

DEAR SECRETARY LYNG: I favor restrictions on production of corn and feed grains that will create "Total Use" in excess of "Production" (see enclosure). Only then can market price exceed cost of production. Following the reduction of current carryover to reasonable disaster levels (isolated from the market, and rotated annually), the market place would provide adequately for production and Federal subsidies would be unnecessary. If such restrictions would be beyond the authority of the 1985 "Farm" bill's: "minimum of 12.5% and maximum of 20%", the 1985 "farm" bill needs to be revised to allow restoration of balance between supply and demand.

As long as Federal law mandates corn production in excess of consumption varying from the 2.36 billion bushels (1985/86) to the 1.34 billion bushels (1986/87–6/10) (see enclosure), Federal subsidies to maintain the corn growing sector of Agriculture are going to be horrendous.

Sincerely,

WILLIAM J. KALIFF.

Enclosure.

EXPORT PROJECTIONS CUT BY USDA AGAIN

USDA unleashed a battery of reports within the past week that did nothing to boost the morale of long-term bullish grain traders. Cuts in old- and new-crop export projections raised ending stock estimates and lowered USDA's estimate of average farm prices.

SUPPLY AND DEMAND REPORTS FOR U.S. CORN AND SOYBEANS

[In millions of bushels]

	1985-86 July 11	1986-87 July 11	1986-87 June 10
Soybeans:			
Beg. stocks	316	515	495
Production	2,099	1,900	1,900
Total supply	2,415	2,415	2,395
Crush	1,055	1,055	1,065
Exports	760	760	775
Feed/seed	60	60	60
Residual	25	25	25
Total supply	1,900	1,900	1,925
Ending stocks	515	515	470
Avg. farm price	5.10	4.70–5.10	4.75–5.15
Corn:[1]			
Beg. stocks	1,648	4,013	3,986
Production	8,865	7,910	8 320
Imports	5	1	1
Total supply	10,518	11,924	11,562
Feed/residual	4,150	4,200	4,200
Feed/seed/ind	1,130	1,150	1,150
Exports	1,225	1,550	1,625
Total use	6,505	6,900	6,975
Ending stocks	4,013	5,024	5,932
Farm-owned reserve	575	1,500	1,875
CCC inventory	600	1,400	1,360
Free stocks	2,838	2,124	1,352
Outst. loans	2,550	1,600	600
Spl. program[2]	150	200	190
Avg. farm price	2.35	1.75–200	1.80–2.05

[1] 1985–86 based on September/August marketing year.
[2] Special producer storage loan program.

CORN OPTION[1] PREMIUMS JULY

	Calls—Settle			
	December	March	May	December
Strike price:				
$1.80	9	18½		11
$1.90	6¼	14		18¼
$2.00	4⅛	10½	14	25¾
$2.10	2¾	8½	7½	33½
$2.20	2	5½	6½	42⅝
$2.30	1¼	4½	6	52

[1] CBT options on 5,000 bu. corn futures contract trade.

Note.—Futures: December 1.78¼; March 1.88.